Weekly perspective on current market sentiment  
June 17, 2020

Time to Take a Breather?

Key takeaways

- The S&P 500 Index has rallied strongly in a short period of time.
- We believe the market is pricing in quite a bit of good news and the rally is likely to take a breather in coming months as the recovery evolves.

After a 47% rally in the S&P 500 Index from the intraday March 23 panic low to last week’s recent high, we think it is safe to say the market bounced back better than many investors thought possible, especially given that the world is still in the midst of the coronavirus pandemic. Looking at investor confidence readings since early March, a large number of pessimists thought stocks would likely trade lower, if not test the bear-market lows. That perception has resulted in a large amount of cash on the sidelines that has yet to be redeployed into equities. Traders taking short equity positions ahead of virtually every technical resistance point along the way also helped fuel the rally as the market moved higher and short positions were covered at losses, likely multiple times for many taking a very short-term view. Historically, it is highly unusual for the major equity indices to rally as strongly as has been the case since the March low without a meaningful pullback. But alas, that has not been the case, at least at this point, even when taking last week’s price action into account.

So where does the market go from here? Will the major indices continue to push higher? In short, we expect the major indices to gain modest ground as we look out through the end of this year. Based on our latest research, it appears the stock market has priced in quite a bit of good news. Our economic expectations call for a strong bounce out of the recession in the second half of this year. We look for growth of 3.0% in 2021, as pent up consumer demand is exhausted and the rate of unemployment remains well above the level seen in early 2020.

We expect volatility in the coming months as we gauge how the reopenings are going and how consumer spending is progressing. There are likely to be bouts of uncertainty in terms of medical news as well. In fact, last week’s big down day in the market (Thursday) was largely sparked by fears that a surge in new coronavirus cases was potentially on the verge of accelerating in a number of states.

Data on the reopening process (tracking consumer spending) and coronavirus-related medical news is going to be closely watched by market participants in the coming weeks and months. The stock market has been anticipating good news on these two fronts for some time. We expect to see the stock market take a breather and trade in a range in the coming months as we move through the end of the year.

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Last Week’s S&P 500 Index: -4.8%

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