

Stock Market Update

March 2, 2020

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Stocks Hope For Help From The Fed

Stocks rallied to start the new week, buoyed hopes for at least a near-term reprieve from last week's selling and boosted by expectations that the Fed and other Central Banks would step in sooner rather than later and cut interest rates. Whether lower interest rates would be much of an offset to the uncertainty surrounding the economic effects of the coronavirus outbreak is open for debate. Action by the Fed would likely help sooth frayed nerves in the financial markets and is already fully discounted by the futures market.

Even beyond the Fed, stocks were likely poised for some near-term relief. Last week's selling saw some evidence of panic (TRIN briefly eclipsed 2) and by the end of the week, stocks were somewhat washed out. Coming into this week, fewer than 5% of stocks were above their 50-day averages and only 26% were above their 200-day averages. Most sectors saw the percent of stocks above their 200-day averages remain above the lows from December 2018, though for the Consumer Staples sector, it dropped to its lowest level since early 2009.

For the day, the S&P 500 finished up more than 4% and crossed back above its 200-day moving average. Even as stocks rallied today, the put/call ratio remained elevated. This suggests a welcome persistence in caution from options traders. Despite the overall size of today's rally, the S&P 500 is only back to where it was on Thursday and the ratio between upside and downside volume struggled to even get to 5-to-1 (it finished the day at less than 4-to-1). For comparison, the first move off of the December 2018 lows saw upside volume outpace downside volume by better than 28-to-1. If the worst of the decline is indeed over, we should soon see two or more days where upside volume outpaces downside volume by better than 9-to-1. This is especially important given the damage done last week to the longer-term broad market trends (which prompted this morning's [downgrade to breadth and the overall weight of the evidence](#)).

Bottom line: Today's rally was a welcome relief following last week's intense selling. After an impressive price move in the indexes, it is now important to see improved breadth if strength is going to persist.

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