CAPITAL INVESTMENT COUNSEL

The Columns

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I know about Wacky Wednesday or Freaky Friday, but what do you call a bizarre Monday? On Monday, July 20th, Amazon rallied 7%. Pretty impressive, but the timing felt odd. For the week before, ending July 19, Amazon had one of its worst weeks since 2015. That same week, the NASDAQ 100 had its worst week relative to the S&P 500 in 11 years.

Actually, that makes sense. Using history as a guide, July 20th marks the NASDAQ seasonal peak. Sentiment Trader's data shows that trading day 132 has been the NASDAQ's summer peak. If history holds true, tech has typically ground sideways to slightly down before bottoming around day 195ish: roughly late September. Of course, 2020 has been anything but typical.

Monday July 20th was strange. Imagine going to a party where most people were having a bad time. Not much of a party is it? Monday felt similar. Yes, the NASDAQ 100 was up 2.9%, but the equal weight S&P 500 was *down* half a percent. Overall, most stocks were down on that Monday: the NYSE advance decline line was negative. We've seen similar action 15 times in the past. In 12 out of 15, the market was lower a week later with an average drop of 1.7%. (source: Michael McKerr). Not a death knell by any means but maybe a need for a time out.

The Tech sector has been on fire since March's market bottom, but the tide has shifted lately. For that same week ending July 19th, the weekly leader was not tech but the boring Open Up group. As tech slid to a 1.2% loss, the cyclical driven Open Up stocks powered to a 6% gain. Even Netflix discovered gravity as the streaming giant plunged 9% for the week.

I like what I see in the market's July shift. July's leadership in the Open Up stocks may indicate a deepening belief in a second half recovery. The Open Up group consists of mostly analog and not digital companies. They're the goods and services we use every day (or at least we used to). If you can touch it or taste it, it's probably an Open Up stock: think FedEx, JP Morgan, or Sysco. If you eat in a restaurant or do carry out, the chances are fairly good that the food originally came from Sysco. The Open Up's are the economy's basic building blocks.

Open Up's led the market higher in April and May before fading in June. June's drop coincided with the Covid-19 spike in the hothouse four: Texas, Florida, California, and Arizona. Open Up's recent rally could be a useful indication for growth. I think it signals investors' confidence in a broad-based recovery. I love the tech sector, but the valuations seem rich. The rise in big tech PE's from the mid 20's to the mid 30's doesn't tell me much about how the recovery is going.

The good news is that investors appear to be looking past the Covid-19 spike. We may have seen the peak in Covid-19 cases in the big four: Texas, Florida, California, and Arizona, and Covid related Google searches peaked two weeks back. Looking around the globe, there is cause for optimism.

Europe's recent victories on the Covid front are remarkable. Covid hammered Europe this spring. Italy and Spain in particular suffered massive Covid spikes. Europe's 7-day average of confirmed cases peaked at 28,000 in April. At that same time, the 7-day average in the US was 31,100.

Fast forward to now and Europe's case average has plummeted to 4700 while the US numbers skyrocketed to 66,000. Let's take the positive view and see that improvement can be accomplished. If the US can follow Europe's lead, we may see similar improvements, the economy and markets could be well on their way to recovery. I'm a big fan of the European markets. Allocations and valuations to Europe are at the lowest they've been in years. This may give Europe's markets room to run.

On Tuesday, July 21, the ECB announced a $2 trillion bailout package to aid the recovery. Europe's rebound has begun but the spending package could shift it into a higher gear. Last month, we talked about the Super Soaker theory of monetary policy. Jerome Powell has been using his Super Soaker full of money for the last four months. It looks like Europe is getting their Super Soaker ready as well. I say this to caution you from being too negative during market downturns. Central banks around the world

appear to have one goal in 2020: reignite the economy and the amount of stimulus is unprecedented. I feel it may be unwise to fight that trend. If you have any comments, feel free to contact me at heddins@capital-invest.com or call me at 919-656-0836.

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