

Stock Market Update

March 6, 2020

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Heading Into The Weekend

Stocks finished the week on a down note, with back-to-back declines for the S&P 500 substantially erasing the early-week gains. For the second week in a row late-Friday afternoon buying helped stocks finish well off of their lows. The S&P 500 finished the week with a slight gain and is down 8% on a year-to-date basis. Bond yields continued to move lower on Friday. The yield on the benchmark 10-year T-Note was above 1.9% at the beginning of the year and finished the week below 0.8%.

Economic data received this week showed that the economy was enjoying an upswing prior to the outbreak of the coronavirus. ISM data showed that both manufacturing and service sectors were recovering from last year's slowdown, and today's employment report showed that in the 113th consecutive month of job gains, payrolls increased by 273,000 and average hours worked ticked higher (both of these data points exceeded consensus expectations). This economic momentum is an important ray of sunshine for an economy that is facing a grim uncertainty over the effects on growth of the coronavirus. For more on what we are watching from an economic perspective, see this week's [Macro Update](#).

Given the uncertainty of the economic outlook and the emerging downward pressure on earnings estimates (according to FactSet, earnings for Q1 are expected to decline slightly), we need to see overwhelming evidence of improvement in our technical indicators to become more constructive on stocks in the near term. To date, that has not been seen. Downside momentum has remained intact and the new low list has remained elevated. Friday's late surge may bring some hope that the S&P 500 has successfully tested last week's lows. Support for that argument could come next week in the form of a nine-to-one up volume day. Absent the emergence of such a breadth thrust it is difficult to have conviction that a low has been tested. We would want to see a second such breadth thrust to suggest that deteriorating conditions in the broad market have run their course. Absent such breadth thrusts, investors should remain patient and let this period of intense volatility run its course.

Bottom line: A late-Friday rally could suggest a successful test of last Friday's lows. Breadth thrusts next week are necessary to confirm this. Absent two nine-to-one up volume days, we continue to argue for a patient approach.

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