

Stock Market Update

February 24, 2020

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Elevated Valuations and Excessive Optimism Have Investors Focused on Headlines

Stocks fell sharply on Monday. The Dow Industrials lost more than 1000 points and the S&P 500 fell over 3% on the day and tested its January lows. Demand for both bonds and gold remained elevated. The yield on the 10-year Treasury (1.36%) dropped to within a few basis points of its all-time low and gold added to its recent gains (and is up nearly 10% in 2020).

Today's equity market weakness came in the wake of news reports showing the spread of the coronavirus accelerating outside of China. The combination of stretched valuations and widespread optimism at last week's stock market highs seem to have fueled a sell-first reaction to headlines. Investing by its nature is about making decisions in the face of uncertainty. While uncertainty appears to be rising, we prefer to be guided by the message from the [weight of the evidence](#) rather than the headlines of the day (whether pandemic or politics related). As we discussed in our most recent [investment strategy outlook](#), even with the headwinds from valuations and sentiment, the weight of the evidence still tilts bullish. Economic risks may be rising but green shoots were emerging on a global basis prior to the outbreak in China and the tone of US economic data in recent weeks has been decidedly positive.

From near-term technical perspective, we see more evidence of downside momentum than selling becoming exhausted. If the January lows on the S&P 500 (3225) are unable to provide support, we will be looking for evidence of that exhaustion and more pronounced investor pessimism to gain confidence that near-term lows are in place. Breadth is already showing signs of deterioration and the new low list has begun to expand.

Bottom line: Headline-fueled volatility has the S&P 500 testing support at the January lows. A break of that level could lead to a deeper unwind of excessive valuations/optimism as the market digests the economic implications of the spread of the coronavirus. The overall weight of the evidence remains bullish.

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