FUNDAMENTUM
INVESTMENT MANAGEMENT

Weekly Snapshot 9/14/20

Market Review: Week Ending 9/11

FANG stocks dropped 4% or more last week and the Nasdaq Composite reached correction territory on Tuesday (down 10% from its recent high) as the broader S&P 500 Index fell for the second consecutive week, down 2.5% closing at 3340[1]. It led to this week's Barron's cover - '*Not Ready to Pop...The Tech Bubble could keep growing, despite recent setbacks for the stocks".* While the correction in the Tech-oriented Nasdaq has been most apparent, the Composite is still up 21% for the year and has rallied 58% from its March low[1]. Safe-haven government bonds caught a bid for the second consecutive week, driving yields on the 10-year Treasury Bond down to 0.67%[1]. No clear catalyst has been identified for the two-week slide. One possibility is the Senate Republicans "skinny" COVID-19 aid package that was blocked by Democrats and never reached a vote, lowering the likelihood of another stimulus package being enacted before the November elections. Another is that the pace of recovery appears to be slowing, highlighted by weekly jobless claims figures that have been flat for two consecutive weeks, leaving continuing claims at a staggering 13m level[1]. Finally, evidence of speculative excess from retail investors and in the options market during the summer market surge where a record 18.4m single-stock option contracts occurred in August (up 80% from July levels[1]) could simply be wearing off, a healthy and necessary occurrence if the rally is to continue through the end of the year. Options markets may require more time (and market declines) to shake off the excess, as additional records were set in September (23.8m single-stock daily contracts a day[1]) around the time of the Tesla and Apple stock splits. More than evidence tied to the real economy or earnings expectations, we tend to believe the pullback so far is a blowoff of some speculative activity. Through the close Friday, year to date results for the major indices are as follows: S&P 500 4.8%, Russell 2000 -9.4%, MSCI EAFE –5.2% and Bloomberg Barclays Aggregate Bond 7.0%[2].

What We Are Watching in the Week Ahead:

- ***Pace of the Economic Recovery*** - Journalists and Wall Street pundits are quick to use letters to describe any economic recovery. The letter being used to describe the current one is "K". This represents a segment of companies that benefit from a stay-at-home economy where housing is at a premium - large-cap technology disruptors, homebuilders, home-related retailers and manufacturers of home goods - while the other arm of the K represents the travel-related industries and many small businesses where jobs are expected to vanish, unable to cope with COVID-protocols and changing consumer behavior. This week's reports on *Retail Sales, Consumer Sentiment* and *Housing Starts* will all measure the strength of the consumer and are particularly important now that 6 weeks have passed since extended unemployment benefits have lapsed.

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References: 1. FactSet 9/14/20, 2. Morningstar Direct 9/14/20