Volatility Reemerges After "Too Far, Too Fast"
Stock Gains
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by Scott Brown
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After a significant recovery from March lows, coronavirus-driven fluctuations have reappeared in equity markets.

The S&P 500 index has experienced declines this week. Volatility can be attributed to a variety of factors, including concerns from national health advisors over a possible resurgence in the spread of the virus as a result of reopening the country too soon, comments by the Federal Reserve chairman emphasizing downside risks to the economy, elevated jobless claims, partisan differences on additional fiscal stimulus legislation and renewed tensions between the United States and China.

“As difficulties in ending social distancing have become more apparent, hopes for a rapid recovery seem to have faded,” Chief Economist Scott Brown said.

The S&P 500 had gained 31% over a 26-day period from its low on March 23 – too far, too fast, according to Joey Madere, senior portfolio strategist for the Equity Portfolio & Technical Strategy group. The rally was driven disproportionately by the Technology and Health Care sectors, which buoyed the index amid business closures and decreased consumer spending.

“Given the size and speed of the recovery, it is not surprising to see the recent uptick in volatility over recent days,” Chief Investment Officer Larry Adam said. “With equity valuations at multi-year highs, less optimistic messages weighed on the market this week. Volatility will likely remain elevated over the coming weeks and months as the market gauges the scope of the reopening of the economy and awaits a reliable therapeutic or vaccine. Despite this, we believe the trajectory for the market is up over the next 12 months.”

The week’s renewed volatility reflects the short-term uncertainty around the competing needs to reopen the economy and mitigate the spread of COVID-19, the respiratory illness caused by the virus.

“Early indications suggest improvements to consumer activity are likely to be gradual,” Madere said. “We expect volatility to continue, and would use pullbacks as an opportunity to continue to accumulate equities for the longer term. Remember, bear markets are often very fast and violent, whereas bull markets can last for years.”

Congress has provided about $2.9 trillion – equivalent to about 14% of gross domestic product – in fiscal support for households, businesses, healthcare providers, and state and local governments. U.S. Federal Reserve Chairman Jerome Powell indicated further fiscal support will be needed, adding that it “could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery.”

Washington Policy Analyst Ed Mills is watching two developments that may affect markets: fiscal stimulus negotiations and the U.S.-China relationship. Mills views a fiscal stimulus proposal from the U.S. House of Representatives, where Democrats hold the majority, as a starting point for negotiations that could push the next phase of legislative relief response into June.

“Some parts of the Democrats’ $3+ trillion bill could become part of the final package, particularly targeted state aid, healthcare funding and adjustments to small business lending programs,” Mills said. “But the scope of the state aid as currently structured, as well as various other spending initiatives, signal that Democrats and Republicans remain far apart on the core issues.”

Mills also sees signs of escalating tensions in the U.S.-China relationship as a potentially significant risk for the market in the second half of this year should the Trump administration return to its trade-war playbook from before the Phase One agreement reached prior to the pandemic.

“Election year political considerations increase the odds of a return to confrontation in the coming months,”
Mills said.

Your advisor will continue to monitor new developments and keep you updated with the latest information. In the meantime, please reach out to him or her with any questions about your financial plan.

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