



Insights on recent market events

Market Update: Another Day for the Record Books

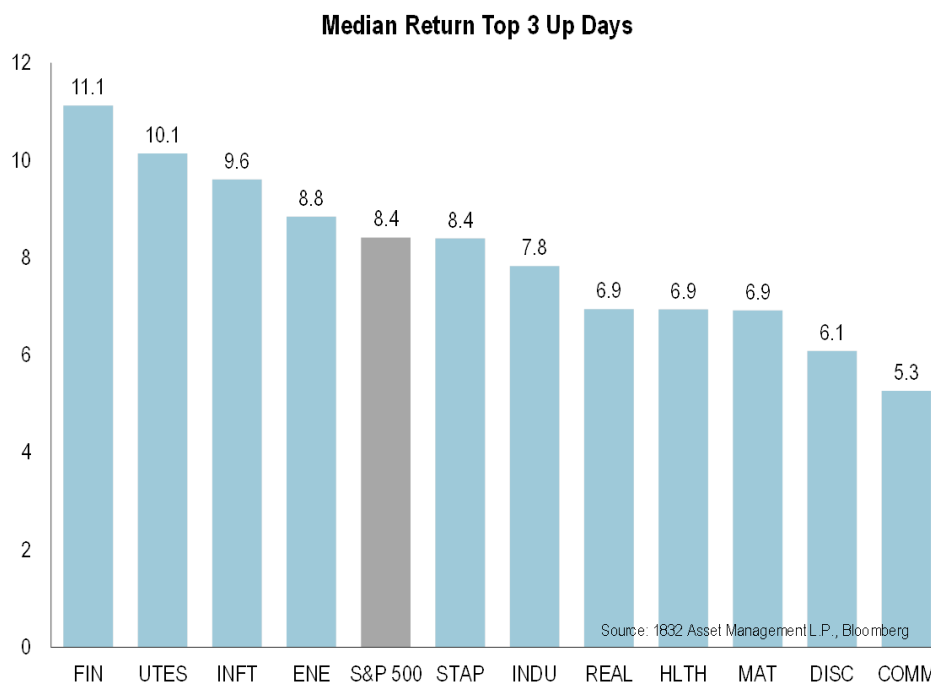
Global equity market prices were buoyed on Tuesday by some glimmers of hope. The first bit of good news was that the number of COVID-19 cases in hard-hit Italy showed some early signs of cresting, with the number of deaths down for the second consecutive day. Signs, perhaps, that the lockdown in the country was finally showing its intended effect. This was followed by reports from the White House that a \$6 trillion dollar, or 30% of GDP, stimulus package was making its way through Congress. These funds will represent, according to White House Chief Economic Advisor Larry Kudlow, “the single largest Main Street assistance program in the history of the United States”.

With equity markets already on their back foot, rays of light led to an epic short-covering rally. Our contacts on Wall Street’s trading desks also suggested that pension funds were better to buy given that they had cut their equity exposure 30-40% and were feeling some need to reload. All of the major indexes exploded higher, with the S&P 500 rallying by 9.4% and the Dow Jones Industrial Average up an even greater 11.4%. To put yesterday’s action into context, that DJIA’s move was the fifth biggest rally in history and a day unlike anything seen since the early 1930s. Notice also that almost all of the top ten daily price surges have happened in the midst of equity bear markets. It is common to not only find the largest up days, but down days, during bear market phases. Volatility clusters in times of stress.

DJIA Top 10 Biggest One Day Rallies (1901-present)		
Date	% chg	Bear market ?
03-15-1933	15.34%	No
10-06-1931	14.87%	Yes
10-30-1929	12.34%	Yes
06-22-1931	11.90%	Yes
03-24-2020	11.37%	Yes
09-21-1932	11.36%	Yes
10-13-2008	11.08%	Yes
10-28-2008	10.88%	Yes
10-21-1987	10.15%	Yes
08-03-1932	9.52%	No

Source: 1832 Asset Mgmt, Bloomberg

A performance pattern within the equity market is starting to emerge. Sectors such as Energy, Utilities and Financials are leading on the days which show the largest daily moves to the upside. These same sectors are also among the hardest hit on the outsized down days. It suggests to us that the hardest hit are also snapping back the most. This could be a preview of things to come once equity markets find a more stable footing.



But, we do not believe yesterday's rally represents an "all is clear" signal for markets. The optimism about Italy's situation has already started to fade with an uptick in new deaths over the past 24 hours. And while President Trump firmly believes that the economy can get back to normal by Easter, his Chief Medical Advisor Dr. Anthony Fauci adopted a more realistic approach by saying that "you can look to a date [to ease restrictions], but you've really got to be flexible". There are an estimated 160 million Americans now being told to stay at home. This amounts to 17 statewide lockdowns, with another 11 states on partial lockdown. This will undoubtedly take its toll on economic activity, which is why Congress is pressing through with its historic stimulus package.

The economic fallout in the rest of the world is also incomplete. Prime Minister Modi, of India, said yesterday during a nationwide public address that "to save India and every Indian, there will be a total ban on venturing out". Those measures start today. The practical troubles of quarantining 1.4 billion people, or the second most populous country on the planet, must be an epic undertaking. But what it also tells us is that this story on a world wide scale, both from an economic and social point of view, needs more time to play out.

Myles Zyblock BA (Hons.), MA, CFA
Chief Investment Strategist

dynamic.ca

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