Clark Capital Management Group

Commentary

Navigator® Market Update

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Volatility is Still Alive and Well – Perspective on Yesterday's Selloff

After a record breaking rally off of the March lows that resulted in new highs for the Nasdaq and a move into positive territory for the S&P 500 for the year, stocks fell sharply yesterday due to fears of a second wave of the virus and a somber tone from Fed Chairman Powell. The market had been on a tear with the S&P 500 gaining 45% from the March low to this week's high. Yesterday's sharp decline took back a portion of those gains and reminded us all that volatility is still alive and well.

Fed Chairman Powell's comments after Wednesday's FOMC meeting left investors with the stark reality that the economic damage from the shutdown is likely to persist and hopes for a "V" shaped economic recovery are not in the cards. In our opinion, we are not likely to see the economy return to the peak levels of last February until late 2022 or early 2023. The Chairman supported our expectations by saying the Committee expects to keep short-term interest rates near zero through 2022. Powell said, "We are strongly committed to using our tools to do whatever we can for as long as it takes."

The strong gains the market has seen recently have been built on hopes of the economy reopening with restrictions lifted. Now that that is occurring, the enthusiasm over reopening has turned to fear over a second wave of the virus, as several states have reported an increase in infections. One has to wonder if there is a second wave of the virus, will it result in another round of economic lockdown? We don't think such a draconian response is likely.

Short-term volatility notwithstanding, the internal condition of the market has improved considerably. Several breadth thrusts have registered including the number of stocks trading above their 50-day moving averages, the percentage of stocks hitting new 20-day highs, and a surge in the 10-day advance / decline ratio. All of these breadth thrusts have a very good track record leading to gains over the intermediate term. However, the market did reach an extreme overbought condition following the 45% move higher in the S&P 500 and investor sentiment was getting complacent with put-call ratios sinking to multi-year lows and surveys a bit too optimistic. The result was a day like yesterday, with the market taking back gains from the past two weeks, and a reminder that volatility and emotions are still running high. That being said, we still believe we are in a long-term, secular bull market and that the correction we experienced was a short-term, cyclical bear market.

These are challenging times for investor psychology, and the importance of client communication has never been higher. For our in-depth perspective on the markets and economy and the major talking points to share with your clients, please register here for our Mid-Year Market Outlook webcast.

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