SOWELL'S WEEK AHEAD

WEEK OF MARCH 18, 2020

While this communication traditionally focuses on the upcoming week, we would be remiss not to recognize a few of the notable market events of last week's wild ride: the S&P and Dow both slid into bear market territory, ending a bull run of over a decade; European stocks had their worst day in history on Thursday; the US 10-Year Treasury rate got to as low .318%; and the VIX hit its highest level since 2008.

In the week ahead, markets should continue to be event-driven, with major moves revolving around headlines on COVID-19 and plans for economic stimulus. To that extent, the Fed cut their target rate a full percentage point late Sunday afternoon from its previous range of 1%-1.25%. This follows the Fed's emergency 50 bps rate cut earlier this month and essentially puts the US in a zero-rate environment ahead of the scheduled FOMC rate decision on Wednesday. The Fed also announced a new $700 billion quantitative easing program. As of the time of this writing, US futures had hit their "limit down" levels of 5% lower, indicating a sharp decline at Monday's open.

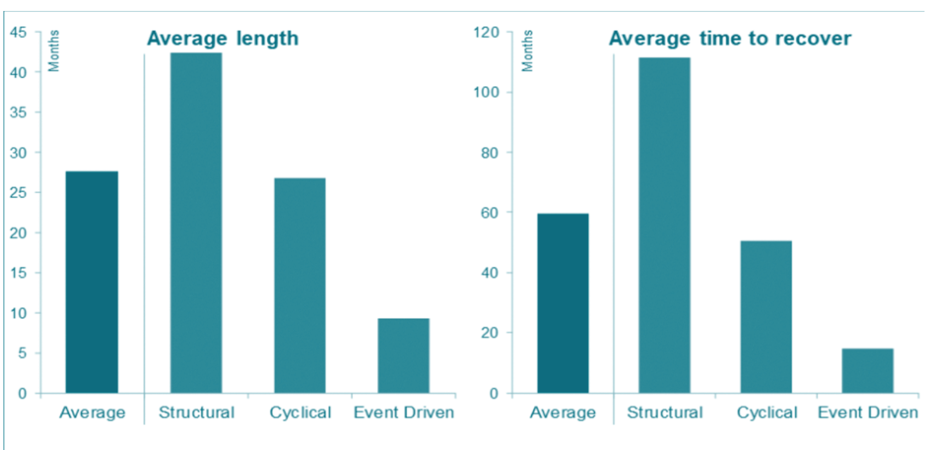
There are handful of companies are reporting earnings this week including Tencent Music Entertainment Group, General Mills, FedEx, and Darden Restaurants.

Our tactical model remains neutral (60/40).

MONDAY MARCH 18, 2020
NY Empire State Manufacturing Index
TUESDAY MARCH 19, 2020
Retail Sales
Redbook
Industrial Production
Manufacturing Production
WEDNESDAY MARCH 20, 2020
Building Permits
Housing Starts
Fed Interest Rate Decision
THURSDAY MARCH 21, 2020
Initial Jobless Claims
Continuing Jobless Claims
Philadelphia Fed Manufacturing Index
FRIDAY MARCH 22, 2020
Existing Home Sales

GAUGE OF THE GRADE

BEARISH NEUTRAL BULLISH



Source: Goldman Sachs Global Investment Research

The adjacent chart, courtesy Goldman Sachs, shows the average length and recovery time of US bear markets since the 1800s. At this stage, they are currently classifying this bear market as Event Driven (caused by a one-off shock that doesn't lead to an economic recession) as opposed to Structural (related to structural imbalances and bubbles) or Cyclical (function of the economic cycle). Average declines are as follows: Event Driven – 29%, Cyclical – 31%, Structural – 57%.

SECTOR RETURNS

	5 DAYS	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
Basic Materials	-13.2	-23.1	-22.5	-20.4	-14.9
Communication Services	-6.7	-17.6	-11.3	-7.9	0.4
Consumer Cyclical	-10.4	-21.9	-15.3	-15.5	-5.4
Consumer Defensive	-7.8	-12.0	-8.6	-5.3	5.9
Energy	-24.1	-41.3	-44.7	-44.9	-48.1
Financial Services	-9.8	-26.0	-24.5	-18.3	-11.0
Healthcare	-6.5	-12.6	-9.0	0.7	1.0
Industrials	-13.1	-25.7	-22.6	-19.9	-14.1
Real Estate	-8.4	-14.8	-5.1	-6.9	2.1
Technology	-5.2	-16.9	-5.5	4.6	18.6
Utilities	-14.1	-17.6	-8.4	-6.9	1.9

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