Investors finally push back against a V-shaped recovery

On the Day
Stocks sold off today after Texas delayed its reopening strategy, and other states contend with rising COVID-19 infections/hospitalizations. Multiple reports highlight some states and local governments could follow suit and begin dialing back reopening plans, which would slow the economy’s path toward normal, in our view. High frequency metrics such as ridesharing and OpenTable dining reservations have shown recent softness, as more individuals reengage in practicing social distancing. Simply put, the V-shaped economic recovery stock prices reflected coming into June now looks suspect. Results from the Federal Reserve’s bank stress test, which restricted dividend payouts and suspended share buybacks, also weighed on sentiment. Financials sank today, and stocks finished the session at a two-week low. U.S. Treasury yields remain at depressed levels, due to aggressive government bond-buying activity across multiple entities, including the Fed.

Committee View
Roughly six months into 2020 and the S&P 500 Index has posted a significant number of +/- 2.5% or greater daily moves that are already on par with other “full-year” periods in history. As the Ameriprise chart to the bottom right shows, only the 2008/2009 Financial Crisis produced a higher number of such daily moves. The unique circumstances of COVID-19 and its impact on the market and economy are significant. We believe the evidence of that significance is playing out in larger than normal daily price moves across the major averages this year — as was the case today.

As the market has shown this week, investors’ concerns are growing over the spread of COVID-19. Hence, the steady ebb lower in stock volatility since late-March has somewhat shifted course, creeping higher over recent weeks. But the modest shift higher in volatility since the beginning of June by itself is not a reason for alarm, in our view. Investors should expect periods of increased volatility and even a higher “steady state” of volatility as long as COVID-19 dynamics remain fluid. As we mentioned in Before the Bell earlier this week, markets have grown more comfortable with the “known unknowns.” We believe that as long as virus and economic trends do not dramatically deteriorate over the coming weeks and months, stock prices are well supported. In our opinion, the massive monetary and fiscal stimulus support could prompt shorter-term investors to use near-term stock pullbacks as an opportunity to increase exposure. We believe stock direction over the coming months depends on the shape of economic recovery, the potential earnings rebound, and, obviously, trends in the virus. Bottom line: The large daily swings in stock prices reflects the highly unusual circumstances surrounding COVID-19 and rhymes with other significant macro disruptions in history. However, the added volatility associated with these periods, while uncomfortable, generally produces opportunities for patient investors that are willing to stay the course.

Today’s Market Action at a Glance

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Indexed Level</th>
<th>Net Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>3,009</td>
<td>-74.7</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Dow Jones Industrial Average</td>
<td>25,015</td>
<td>-730.1</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>1,378</td>
<td>-34.5</td>
<td>-2.4%</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>9,757</td>
<td>-259.8</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Best Performing S&amp;P Sector</td>
<td>Utilities</td>
<td></td>
<td>-1.0%</td>
</tr>
<tr>
<td>Worst Performing S&amp;P Sector</td>
<td>Comm Services</td>
<td></td>
<td>-4.5%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Indexed Price Performance Through the Prior Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year-to-Date Price</td>
<td>Percentage Change</td>
</tr>
<tr>
<td>Performance Index</td>
<td></td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>11.64%</td>
</tr>
<tr>
<td>Dow Jones Industrial</td>
<td>3.37%</td>
</tr>
<tr>
<td>Average</td>
<td></td>
</tr>
<tr>
<td>Russell 2000</td>
<td>-4.55%</td>
</tr>
<tr>
<td>NASDAQ Composite</td>
<td>9.79%</td>
</tr>
<tr>
<td>Universal</td>
<td>-16.29%</td>
</tr>
</tbody>
</table>

S&P 500: Number of +/- 2.5% Days

Please ask your financial advisor for Before the Bell, which provides daily market insights and a more in-depth assessment of our market and economic views.

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