Chart of the Month

April 2020

In the Special Weekend Edition of our Chart of the Month, which was published on Saturday, March 21, we stated that "while the news will certainly worsen before it gets better, the stock market is a discounting mechanism and generally leads on the way down as well as on the way up. As such, the market may be closer to its nadir in terms of both time and price. Remember, it is always darkest before the dawn. The extreme levels of panic, despair, and capitulation will be most evident at the bottom. Are we there now? Maybe but probably not quite yet."

Well, as it turned out, the stock market bottomed on Monday, March 23, the first trading day after our Chart of the Month, and the Dow Jones Industrial Average and S&P 500 have both increased 30% over the past six weeks. The two indexes, in fact, just completed their best months in more than 33 years.

We forewarned that "the rebounds have typically been fast and furious," pointing out that "the Dow climbed approximately 35% in three months, 45% in six months, 55% in nine months, and was up nearly 65% a year later" from the low in 2009. While the major indexes have nearly matched the 35% advance in half the time, we are not suggesting that it will continue to move up in a linear fashion as it did 11 years ago. Instead, we would not be surprised if stock prices were to consolidate their recent gains while awaiting more evidence that the curve has flattened, the progress on re-opening the economy, and the FDA approval of a therapeutic (such as Remdesivir, the antiviral medication developed by Gilead Sciences) that could be used in treating the virus.

In the meantime, we will let others debate whether the recovery is going to be in the shape of a "V" or a "U" or a "W" or an "L" or even the Nike "swoosh" logo. The evidence to date suggests that the stock market may be taking on the look of a "V" while the outcome of the economy is still in the air, a combination that perhaps seems paradoxical to those who don't understand that the S&P 500 is one of the best leading indicators (with an emphasis on *leading*). In other words, the market typically hits its low well before the economy bottoms, sometimes by as much as several months. To illustrate, according to the U.S. National Bureau of Economic Research, the last recession ended in June 2009, three months *after* the stock market turned up.

As shown in the chart below, the S&P 500 is now back to where it was in October last year (which doesn't feel nearly as bad as it did at the low when the market had given up nearly 3-1/2 years' worth of profits). That said, it is worth noting that the combination of a 35% decline in stock prices and a 30% rise results not in a 5% decrease (as one might think) but a 15% drop in value, which is where the market currently stands in relationship to its all-time high. In order to get back to the peak, stock prices need to climb more than 50% from their lows last month or an additional 17% from today's close.

S&P 500
2010 - 2020

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