Weekly Market Review

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The Week Ending November 24, 2018

It was a rough, shortened holiday week in the markets. The S&P 500 closed the week down -3.8% which leaves the index just barely in the green year-to-date at 0.2%. Taking a closer look, technology stocks and oil-related stocks are being hit the hardest. The FAANG stocks (Facebook, Apple, Amazon, Netflix and Google (now Alphabet)) are now down more than 20% from their highs which is considered bear market territory. These five companies alone represent over 10% of the market cap of the S&P 500. To put that into perspective, the energy sector is comprised of 29 companies who together constitute about 5.5% of the index. Crude oil is in the same bear market camp with prices falling from a high of around $76 per barrel in October to about $51 today. That is a -33% decline. While dropping oil prices is good news for consumers at the pump, it's bad news for energy companies.

The economic data released last week generally disappointed. Housing starts, durable goods, and consumer confidence numbers all came in weaker than expected, fueling concern that the global economy is slowing. The Fed is still expected to raise the Fed Funds rate another 0.25% to a new target of 2.50% at their December meeting. However, it is unclear if the Fed will be able to continue their desired path of increasing rates to historical norms in the face of a slowing economy. The 10-year Treasury yield has fallen from a recent high of 3.24% in early November to 3.05% as of Friday. And since bond yields and prices move opposite of each other, this means that Treasury bond prices have rallied in November. Generally, Treasury yields act as a reference rate for other interest-bearing securities. So, when Treasury yields fall, corporate bond yields will fall as well. However, that relationship has not been as strong in November. Because of the concerns surrounding an economic slowdown, investors are wary of investing in the debt of highly-levered companies. Also, the energy sector represents a sizable 15% of the high-yield bond market. So the drop in oil prices is affecting the high-yield bond index which is down -2.9% since October 1st.

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