Market Commentary | Week of April 26, 2021

Not All News is New News

One way that market watchers try to get a sense of the market's mood is by assessing how it reacts to news. A healthy market will respond enthusiastically to good news and pretty much just ignore bad news. Conversely, a market that is unable to rally on good news is probably going to be in trouble if bad news comes along. It's probably actually more accurate to say that the watchers assess how the market reacts to better-than-expected news and worse-than-expected news. The market always tries to be ahead of the expected news, so when good news comes that had been widely anticipated, the event might not spur much of the imagined reaction. Hence the old saw, "Buy the rumor; sell the news."

The trouble with that process is that it is highly arbitrary. The degree of "goodness" in any news is a subjective measure; it's sort of like guessing your spouse's mood based on a grunt or a murmur. It's like trying to get an accurate reading from an analog speedometer or bathroom scale with a three-inch wide needle: I know I'll be in the ballpark, but I'm really just making an educated guess.

That phenomenon is evident in individual stocks during earnings season. It's not unusual for a company to report higher than expected earnings only to see its stock sell off. That forces journalists to scurry to come up with a believable excuse, so they blame the inexplicable reaction on things like "weaker guidance" instead of saying that the stock had been bid up in anticipation of the news.

On a market-wide basis, such news assessment events are far less frequent. The economic data reports usually come in close enough to consensus that they rarely trigger much of a reaction. It takes way better or way worse than expected news to get more than a grunt or a murmur from the market. Occasionally some completely unexpected news catches the market off guard.

If all that's true, then why did the market sell off so steeply last Thursday when the proposed Biden tax hikes were announced? That was the one standout aspect of an otherwise ho-hum week. Look at any intraday chart of last week's action and you'll be able to immediately point to the moment that President Biden's headline about increasing the capital gains tax rate hit the media. In their steepest moves of the week, the major averages fell precipitously in the minutes after that headline appeared. Within an hour of the news, they were all more than one percent below their morning highs. It was a surprisingly negative reaction to news that wasn't really new news.

Why did the market react so severely to what was essentially just a restatement of a campaign promise? One theory is that headline monitoring computers immediately began firing off sell orders when the headline hit. And, that initial selling triggered additional selling until cooler heads prevailed. That would explain both the instantaneous reaction and the steepness of the first minutes of the decline. That theory is also supported by the lack of follow-through selling.

Thankfully, a rebound rally on Friday recovered all of Thursday's losses and fell just short of recovering all of the losses from earlier in the week. The major averages were in the red almost all week, beginning with declines on Monday and Tuesday due in part to weakness in some big tech stocks. The averages rebounded over the balance of the week, interrupted briefly by the capital gains tax news selling wave on Thursday.

For the week, the Dow Jones Industrial Average (DJIA) lost about one-half of one percent. The NASDAQ Composite Index (COMP) had a net loss of about half as much, and the S&P 500 Index (SPX) lost about half as much as COMP, down a mere one-eighth of one percent for the week. The Russell 2000 Index of small-cap stocks (RUT), which was far stronger than the big-cap indices from the election into February, has been just flat since then. RUT managed to tack on a 0.34% gain for the week while most other averages and sectors had losses.

If any one factor had the greatest impact on prices last week it was most likely the declining value of the U.S. Dollar. The Wall Street Journal Dollar Index was in the red all week, hitting its lows of the week on Friday and ending the week with a loss of a bit more than one percent. The weaker Dollar contributed to strength in commodities. Agricultural commodities and base metals enjoyed nice gains on the week, gold and crude oil, not so much. The weaker Dollar also helped several international equity indices outperform U.S. markets last week.

The Energy sector was the weakest of the U.S. equity sectors, losing about 1.6%. The S&P Energy Sector Index, like small-cap stocks, enjoyed a big catch-up rally after the election. Over the past five or six weeks, the sector has hit a bit of a dry patch, but thanks to its performance in the first two months of the year, it is still the top sector with a net year-to-date gain of a little more than 25%.

Last week's see-sawing lack of progress made a small contribution to working off some of the market's extended condition, but on an intermediate-term basis, things are still pretty stretched out. As I wrote last week, "That doesn't mean that the market has to turn lower, but it does strongly suggest that further broad gains over the next couple months will likely be pruned considerably from what they've racked up in recent months."

We're likely to see more than the usual amount of news-inspired volatility this week. It brings not only the most reports so far in the new earnings season, but also reports from the biggest names on the calendar. Eight of the largest nine companies in the U.S. will announce results this week. The Fed begins one of its regular two-day meetings on Tuesday, wrapping up with the policy statement and press conference Wednesday afternoon. No big changes are expected, but if there is some deviation from the expected, it's much more likely to be bad news than good. ■

Date	Reports	Previous	Consensus
Monday 4/26/2021	Durable Goods Orders, March, M/M	-1.1%	+2.0%
	Durable Goods Orders, ex-Transportation, March, M/M	-0.9%	+1.5%
	Dallas Fed Manufacturing Survey, April	28.9	27.5
Tuesday 4/27/2021	Case-Shiller Home Price Index, February, M/M	+1.2%	+1.1%
	FHFA House Price Index, February, M/M	+1.0%	+0.9%
	Consumer Confidence, April	109.7	112.0
	Richmond Fed Manufacturing Index, April	17	20
Wednesday 4/28/2021	International Trade, Trade Deficit, March	$86.7B	$87.5B
	FOMC Policy Statement & Press Conference		
Thursday 4/29/2021	Initial Jobless Claims	547K	558K
	GDP, Q1, SAAR	+4.3%	+6.5%
	Pending Home Sales, March, M/M	-10.6%	+3.8%
Friday 4/30/2021	Personal Income, March, M/M	-7.1%	+20.3%
	Personal Spending, March, M/M	-1.0%	+4.0%
	Chicago PMI, April	66.3	64.0
	Consumer Sentiment, April	86.5	87.1