

Date: 03<sup>rd</sup> May 2020

## GPS of Russell 2000 gave false directions early last week!!!

I usually spend most of research time understanding individual businesses. But these days I spare good portion of my time to understand the pulse of the market since this is my first bear market experience. I do have decent portion of cash allocation in my portfolio which I would like to allocate at “right” time. Well, we all know that attempt to time the market is a futile exercise, but history has shown that when a rally in the market is lead by economic sensitive businesses and broader participation, that rally usually has stronger legs to sustain. We will see how bottom is formed in this bear market. But I have a feeling that bottom will not be created until money goes into cyclical businesses of economic sensitive sectors (from defensives) and then that the initial money keeps attracting new money to sustain the rally.

Documenting this exercise will allow me to come back to it when this bear market is over to check how my brain was evaluating the market pulse.

So with that being said – let’s see how markets moved last week 27<sup>th</sup> April – 1<sup>st</sup> May 2020.

### US Markets

Let’s Zoom-in and see each day movement of S&P500 and Russell 2000 in the below screenshot:

| Day | Date                | S&P500 Close | Russell 2000 Close |
|-----|---------------------|--------------|--------------------|
| Fri | 4/24/2020           | 2836.74      | 1233.05            |
| Mon | 4/27/2020           | 2878.48      | 1281.88            |
| Tue | 4/28/2020           | 2863.39      | 1298.08            |
| Wed | 4/29/2020           | 2939.51      | 1360.76            |
| Thu | 4/30/2020           | 2912.43      | 1310.66            |
| Fri | 5/1/2020            | 2830.71      | 1260.48            |
|     | Return Full Week    | -0.21%       | 2.22%              |
|     | Return First 3 Days | 3.62%        | 10.36%             |
|     | Return Last 2 Days  | -3.70%       | -7.37%             |

Full week return was flattish. But a lot of things happened underneath. Optimism of slowly opening up of the US economy along with positive news like FDA authorization of emergency use of Gilead drug Remdesivir for Covid-19 patients helped market move smartly for first three days of the week. S&P500 increased 3.62%, but Russell 2000 increased 10.36% during first three days. It was good to see such big divergence by Russell 2000 first time in this big pull back from lows of March 23<sup>rd</sup>. This big outperformance definitely was good initial sign to build up some hope for sustained rally.

But as bear market rallies usually are, they are sharp on both sides. The following two days of the week, Thu & Fri, all the gains achieved in first three days of the week were sold-off. Russell 2000’s divergence (on down side this time) accelerated by dropping 7.37% compared to 3.7% for S&P500 from Wednesday’s close.

Let's Zoom-out and see how S&P500 and Russell 2000 have performed so far in 2020.

|              | Current Value | 52wk High | 52 Wk Low | Up from Low | Down from High |
|--------------|---------------|-----------|-----------|-------------|----------------|
| S&P500       | 2830.71       | 3393.52   | 2191.86   | 29%         | 17%            |
| Russell 2000 | 1260.48       | 1715.08   | 966.22    | 30%         | 27%            |

As we can see that S&P500 and Russell 2000 have rallied almost similar percentage from 23<sup>rd</sup> March lows, but Russell 2000 is still beaten down more than S&P500 from the highs.

US sentiment winds reach developed markets very fast. Hence, it's very important to keep an eye on the pulse of US markets.

### Indian Markets

Let's see how Sensex have performed compared to Mid0-Cap and Small-Cap indices so far in 2020:

|                  | Current Value | 52wk High | 52 Wk Low | Up from Low | Down from High |
|------------------|---------------|-----------|-----------|-------------|----------------|
| Sensex           | 33171.62      | 42273.87  | 25638.9   | 32%         | 20%            |
| Nifty Midcap 100 | 13502         | 18367.5   | 10990.8   | 23%         | 26%            |
| BSE Small Cap    | 11101.84      | 15020     | 8872.83   | 25%         | 26%            |

As we can see that Midcap & Small-caps have underperformed Sensex by decent margin on both Up from Lows and Down from Highs. They have risen less and fallen more. At least Russell 2000 rallied equally with S&P500 from Lows.

### Inferences from Last Week

1. Hope for sustained rally was building in US markets, but Hope got sold-off in last 2 days of the week.
2. Indian broader market participation is still not there.
3. India has extended the lockdown for two weeks while easing some restrictions.

### Bottom-Line

**Nibble here and there but don't be in any rush to deploy the cash – its gonna be a longgggg night!!!**

There are zillions of uncertainties still out there. I still don't know how a lot of things will pan out.

Warren Buffett advised on yesterday's Berkshire AGM; we better not be too sure of ourselves in this situation.

But I am sure of to keep my eyes and ears open to closely monitor the collective wisdom of the market participants next week.

Happy Investing!

Disc: not a SEBI registered analyst, experiencing first bear market, learning the lessons that market teaches every day, please do your own due-diligence.

Prepared By,

Amit Rupani, CFA Twitter: @rupaniamit