SIFMA Insights

Spotlight: The 2020 Market Madness

A Look at Dow Jones Milestones & S&P 500 Intraday Swings

August 2020

Key Takeaways

- Dow milestones: Hit major ones (20K, 25K, etc.) in just a few months in 2020: troughed March 23 at 18,591.93, -36% to January 15 (1st time to 29K); back over 27K in August, -5% from the peak
- Dow 1,000+ intraday swings: 20 (high minus low price) vs. 1 in the Global Financial Crisis
- S&P 500 100+ intraday swings: 23 (high minus low price) vs. 1 in the Global Financial Crisis
- Despite these market swings, markets remained open and functioning

Spotlight: The 2020 Market Madness

The emergence of the global pandemic COVID-19 in the first quarter of 2020 caused severe economic and capital markets shocks. This turmoil was evidenced by sharp price declines, yet spikes in volumes, in equities markets. Volatility levels, as measured by the VIX, remain higher than normal (averages): 31.22 for 1Q20 (+103%), 34.49 for 2Q20 (+124%), 27.22 in July (+77%) and still elevated in August at 23.04 (50%) versus 15.39 in 2019. Volumes also remain elevated (ADV): 11.0 billion shares in 1Q20 (+56%), 12.4 billion shares in 2Q20 (+76%), 13.3 billion shares in June (+89%) and still increased in July at 10.6 billion shares (+50%) versus 7.0 billion shares in 2019.

Despite continuing economic uncertainty equity markets continue to perform well, in terms of both rising index prices and functioning efficiently. From a market structure perspective, markets remained open and functioning. The financial system and market infrastructure have been very resilient, withstanding record high turbulence, not just as measured by volatility but extreme 1,000 point intraday price swings in the Dow. While the general trend in index prices has been up, market participants expect market metrics to ebb and flow with each economic report or update on developing a virus vaccine, whether positive or negative news.

In this report, we analyze a few signs of market madness through the peak of the COVID-19 related market turmoil.

The Dow Reaches Milestones, Again

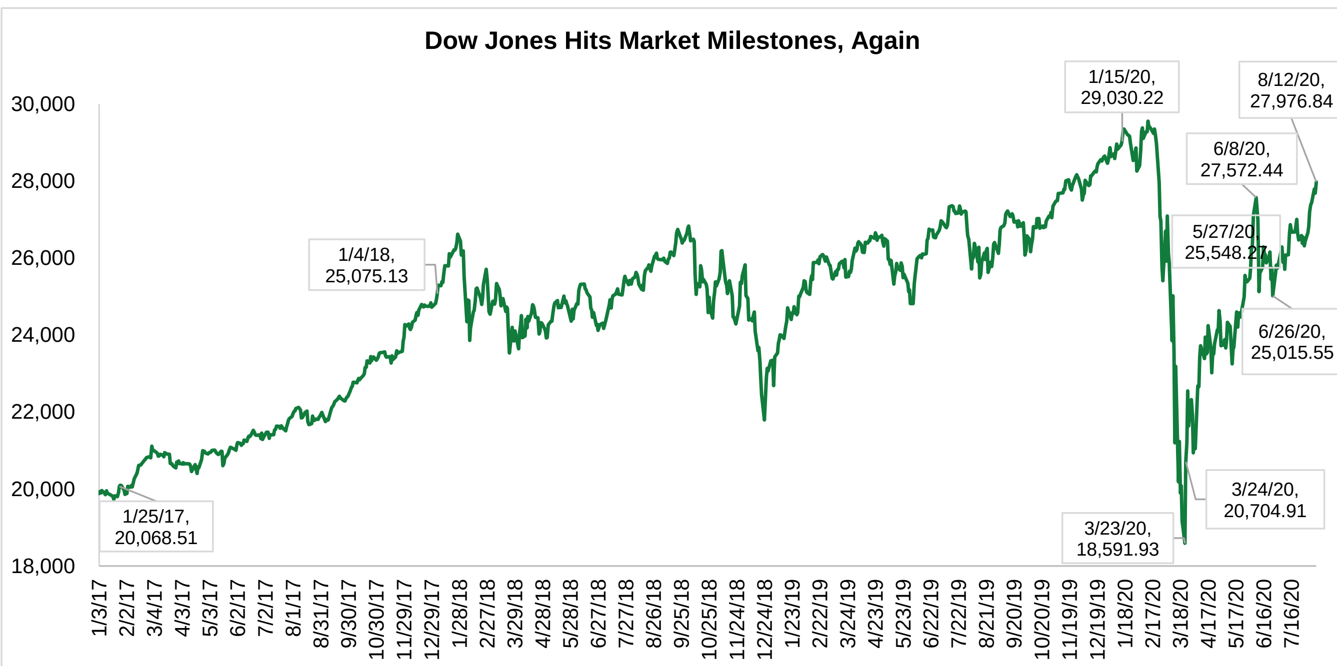
We all remember the excitement on trading floors and staff on the floor of the New York Stock Exchange (NYSE, a subsidiary of Intercontinental Exchange/ICE) wearing the hats – Dow 20,000, Dow 25,000! We started off this year with the Dow breaking 29,000, and the chatter began about Dow 30,000. All of these milestones took years to achieve and represented significant gains. The Dow broke:

- 20,000 for the first time on January 25, 2017, +5.5% from only the 19,000 mark (November 22, 2016)
- 25,000 for the first time on January 4, 2018, +25% to the prior milestone
- 29,000 for the first time on January 15, 2020, +16% to the prior milestone

Then COVID-19 appeared, and the Dow was knocked back down below 19,000. The index troughed on March 23 at 18,591.93, -36% to January 15. It looked like we were in for extended turmoil in the markets. Then along came the Federal Reserve (Fed). On March 23, after already cutting interest rates to zero earlier in the month, the Fed announced an aggressive – in terms of dollar amount and variety of securities included – array of liquidity programs. But those were for fixed income and structured products you say. Yes, the programs were to directly provide liquidity in those areas, but it also boosted confidence in general that the Fed would be there to support the proper functioning of key markets, which in turn supports companies, the government, municipalities and the economy. This improved investor sentiment in the equities markets, and the market recovery began the very next day. A bottom was provided.

Markets then set off to hit all of the milestones again. The Dow again broke:

- 20,000 on March 24, +11% from the trough on the prior day – a 1 day recovery versus taking ~2 years to hit the first time (from ~18,500 to 20,000)
- 25,000 on May 27, +23% from the last milestone – a 2 month advance versus taking around 1 year to hit the first time
- On positive economic news, the Dow vaulted on June 8 to 27,572.44, +8% to May 27 – a less than 2 week advance versus taking around over a year and a half to move the first time (from 25,000 to ~27,500)
- After jumping around since June 8 – dropping to 25,015.55 on June 26, peaking on July 22 at 27,005.84 – the Dow was at 27,976.84 as of August 12, +9.5% to May 27 and only -5% to the year high (29,551.42 on February 12)



Source: Bloomberg (as of 8/12/20)

Markets (Intraday) Swing Away

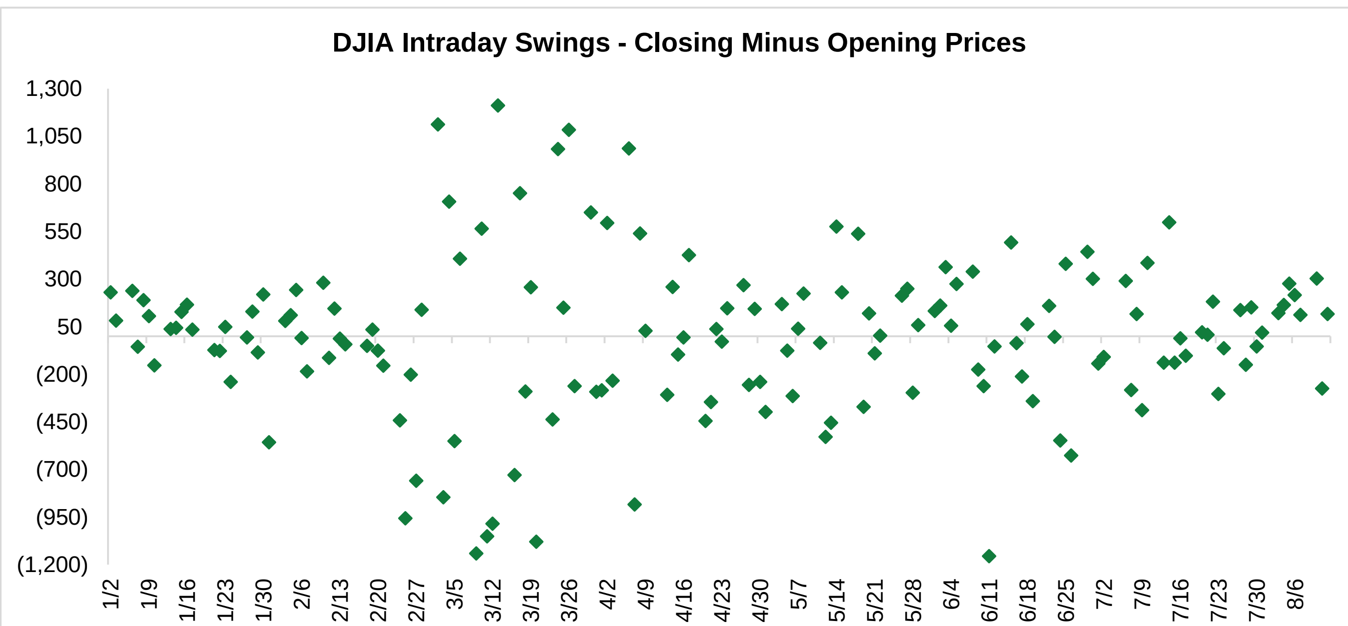
Dow Jones

During the COVID-19 market turmoil, the Dow experienced single day market moves at a more significant level than during the global financial crisis (GFC). And this occurred in just a few months, versus a much longer time period for the GFC. The Dow underwent the following 1,000+ point intraday moves:

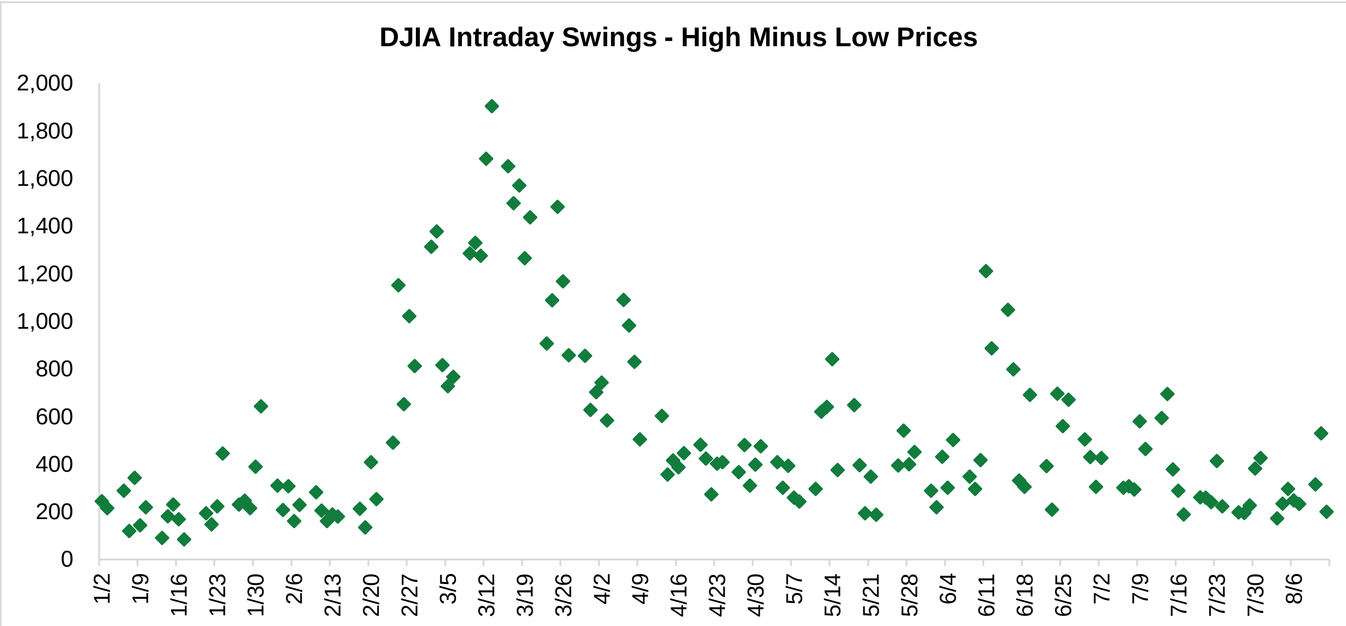
- Close minus open price = 7x
  - vs. the Global Financial Crisis: 0x (and only 1x in the 900 range)

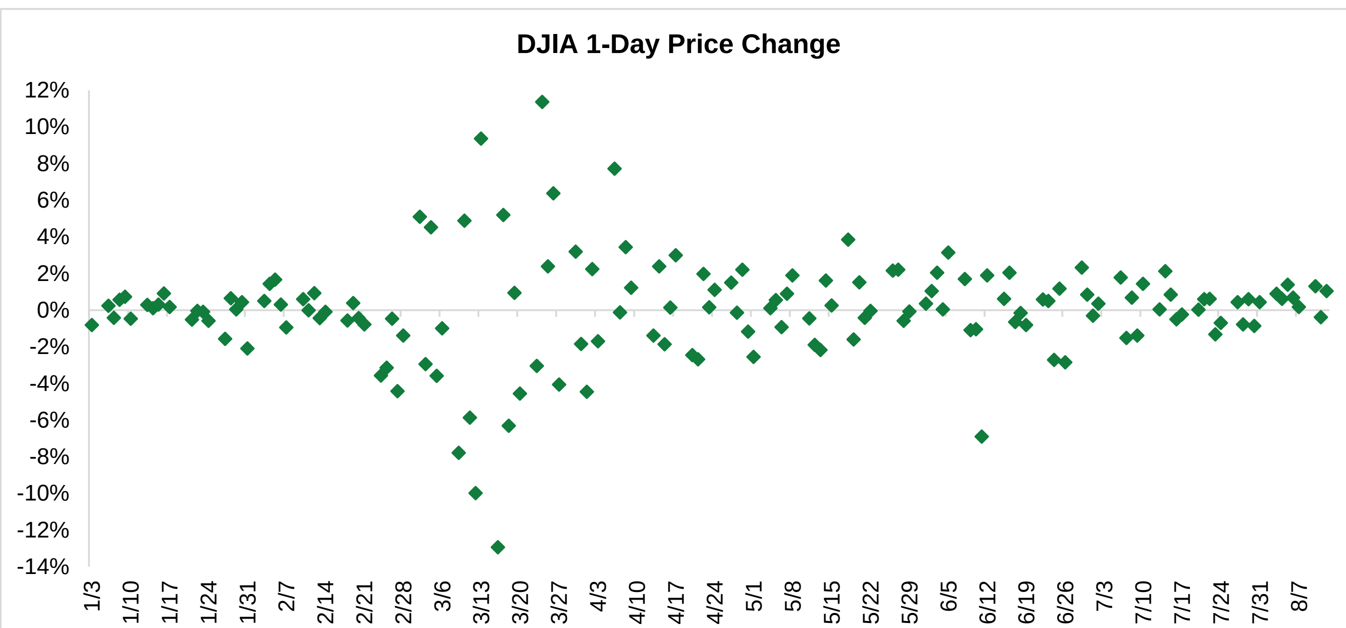
- High minus low price = 20x
  - vs. the Global Financial Crisis: 1x (plus 3x in the 900 range)

- In March, the Dow also experienced 1-day index price changes (day-over-day change) of up to 11.4% / down to -12.9% (GFC +11.1% / -7.9%)



Source: Bloomberg (as of 8/12/20)



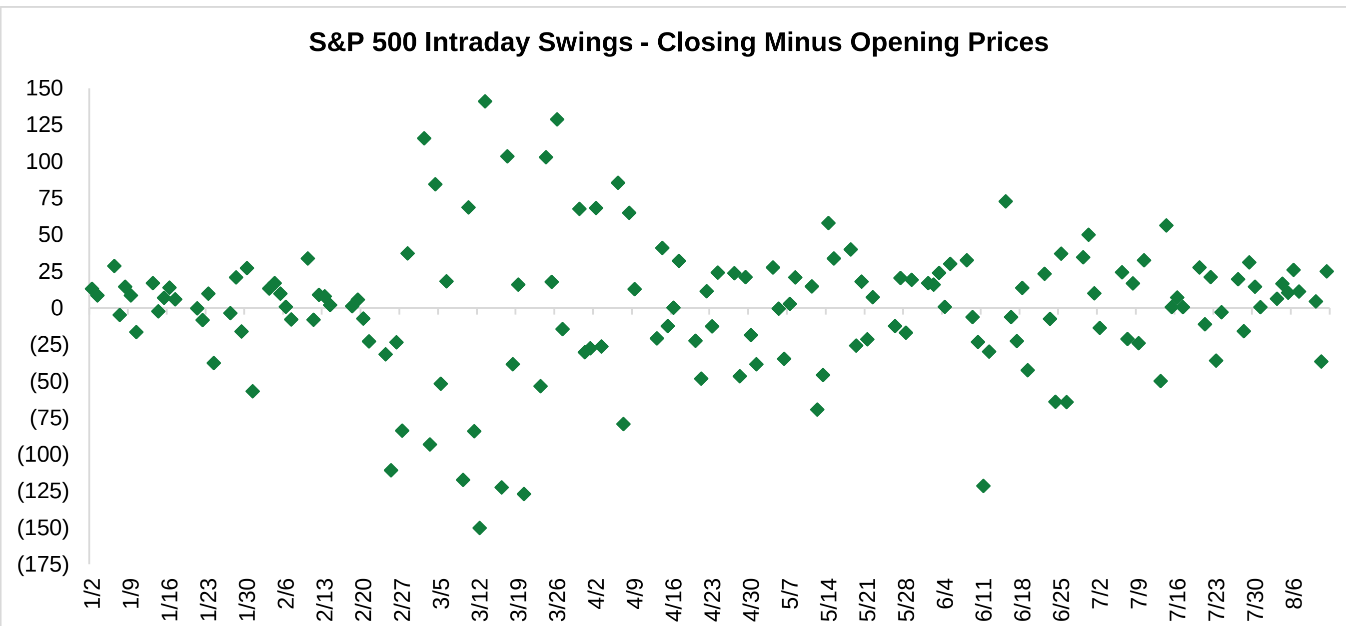


Source: Bloomberg (as of 8/12/20)

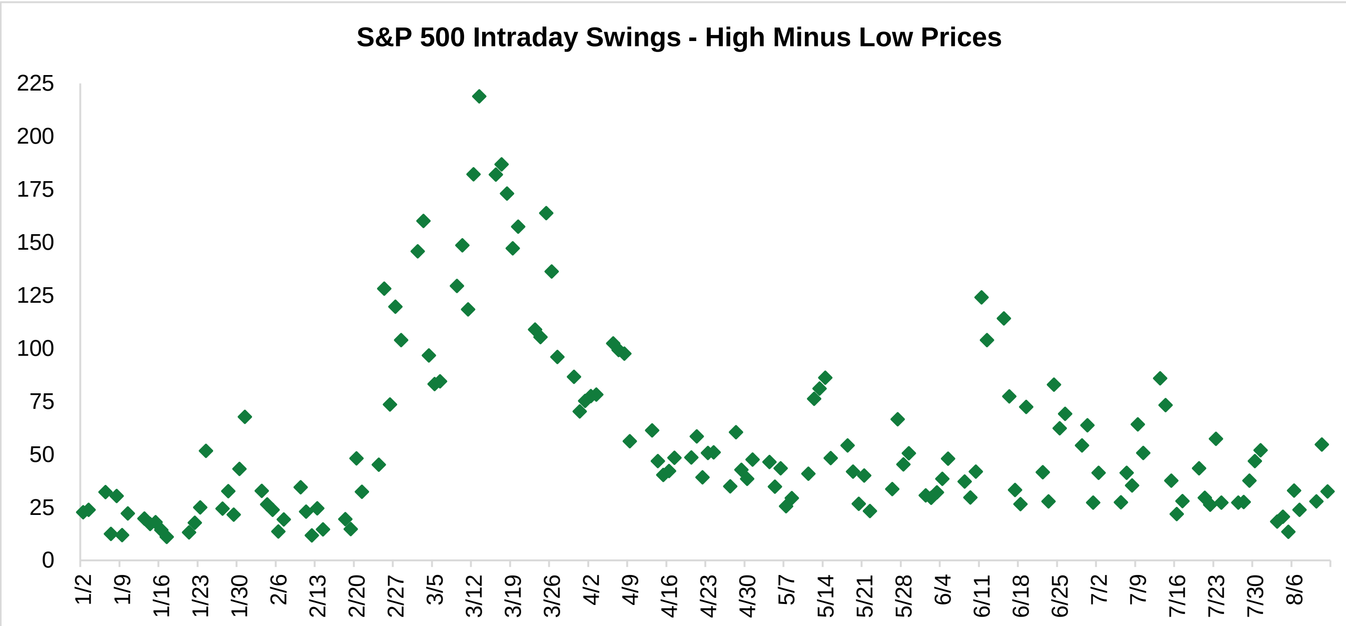
S&P 500

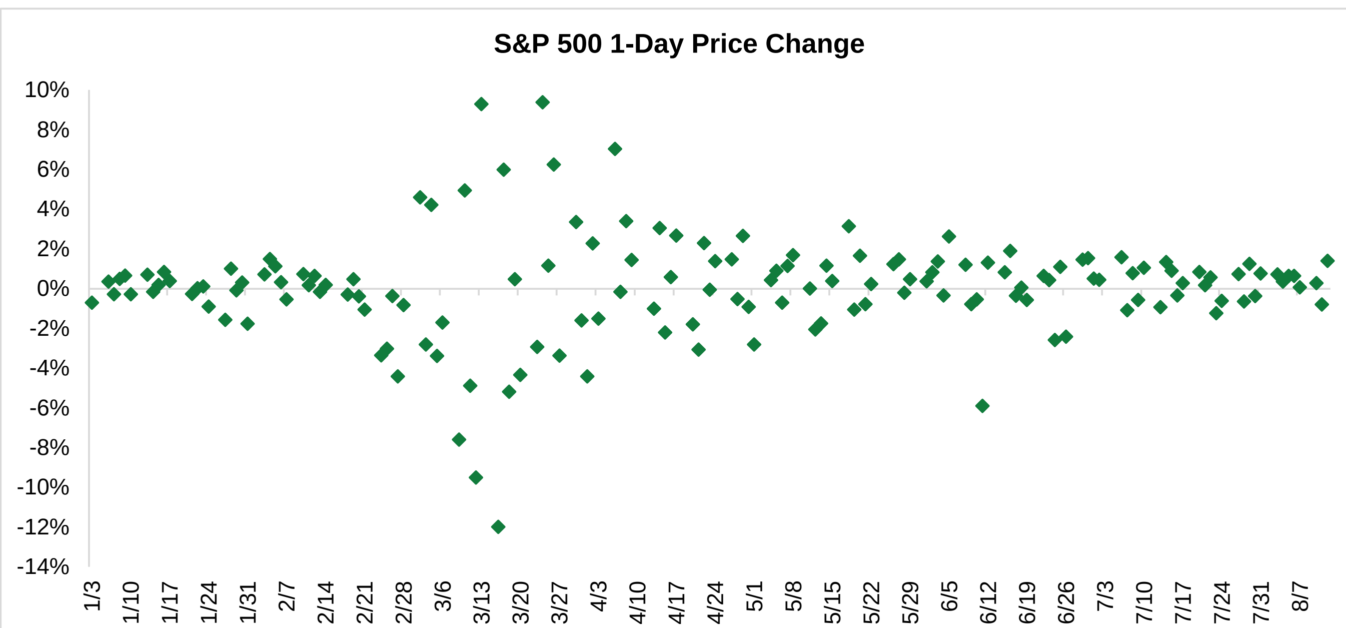
During the COVID-19 market turmoil, the S&P 500 experienced single day market moves at a more significant level than during the GFC. And this occurred in just a few months, versus a much longer time period for the GFC. The S&P 500 underwent the following 100+ point intraday moves:

- Close minus open price = 11x
  - vs. the Global Financial Crisis: 0x (and only 1x in the 900 range)
- High minus low price = 23x
  - vs. the Global Financial Crisis: 1x (plus 3x in the 900 range)
- In March, the S&P 500 also experienced 1-day index price changes of up to 9.4% / down to -12.0% (GFC +11.1% / -7.9%)



Source: Bloomberg (as of 8/12/20)





Source: Bloomberg (as of 8/12/20)

Definitions

- **Dow Jones Industrial Average (DJIA)**: A price weighted index that tracks 30 large, publicly-owned companies trading on U.S. exchanges. It is a widely-watched benchmark index for U.S. blue-chip stocks.

- **S&P 500**: A market capitalization weighted index of the 500 largest U.S. publicly traded companies. The index is regarded as the best gauge of large-cap U.S. equities.

- **Nasdaq Composite (Nasdaq)**: A market capitalization weighted index made up of over 2,500 common equities listed on the Nasdaq stock exchange. Its composition is nearly 50% technology (this percentage has come down over the years), followed by consumer services, health care and financials.

- **Russell 2000**: A market capitalization weighted index made up of the bottom two-thirds of the Russell 3000 index, a larger index of 3,000 publicly traded companies that represents nearly 98% of the investable U.S. stock market. The index is regarded as a gauge of small cap, U.S. centric companies.

- **CBOE Volatility Index (VIX)**: A real-time market index that represents the market's expectation of 30-day forward looking volatility, as derived from the price inputs of S&P 500 index options. It measures market risk and investor sentiment (fear, stress) and is often called the fear index

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