Market Update from Thrivent

March 27, 2020

David Royal
Chief Investment Officer
Thrivent Asset Management

A week for the record books

It's been quite a week—and even that feels like an understatement. Tuesday through Thursday represented the largest three-day gain in the S&P 500 ever, and that's in percentage terms, not just in points. The index jumped 17.55% during that period, exceeding the second-largest three-day advance of 13.95% in November of 2008. Even though the S&P 500 dropped more than 3% today, this week represented the biggest weekly advance since the 1930's. One question you may have–one that has been discussed quite a bit in the financial news the past couple days–is how to invest during a sharp short-term rally in a market that is still down more than 20% since mid-February.

Have markets hit bottom?

I can't tell you what the stock market is going to do in the coming days or weeks, but I'd like to give you some perspective on sharp upward reversals in stocks during major bear markets. These types of big rallies are not uncommon in down markets. In fact, there were four upward moves of greater than 10% in the S&P 500 during the global financial crisis of 2008-09; three of those four rallies occurred before the market bottomed in March of 2009.

Periods such as this merit extra caution. Volatility often increases, sometimes dramatically, following steep market declines as stocks struggle to find a bottom. We can see violent moves, both upward and downward. History shows us that of the ten largest three-day gains in the S&P 500 prior to this week, 60% of the time the index was lower one month later. However, in 90% of those same instances, the index was higher six months later.

The lesson in this data is that the market will often give investors several "head fakes" as it finds a long-term bottom, rallying hard only to give up those gains and reach a lower low. Investors in a position to add to their stock exposure would generally be well-advised not to overcommit to any one upward or downward move in the market. Don't go "all-in" on any drop, since stocks may turn upward only to fall again. And don't chase a rising market, perhaps from a fear of missing out on a rally, by putting too much money to work at once. The market will often provide another opportunity to invest at levels near its lows.

Revisit asset allocation

Of course, it's always a good idea for an investor to consider his or her long-term target investment allocations. But rebalancing to an appropriate asset allocation is even more important in periods such as this, with market volatility contributing to massive advances and declines on a sometimes-daily basis. Not only do allocations get out of balance more easily at times like this, but the consequences of being over- or under-weight an asset class are greater in times of extreme volatility, since smaller divergences from a target allocation can have greater effects.

I wish you all a safe and enjoyable weekend. Our team looks forward to seeing what the market brings next week.

Media contact: Samantha Mehrotra, 612-844-4197; samantha.mehrotra@thrivent.com

3016359-032720