Market update from Thrivent

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It was another volatile day in the markets today (Wednesday). Even though the markets closed well above their session lows, the Dow Jones Industrial Average was still down 6.3%, the S&P 500 was down 5.2%, the tech-heavy Nasdaq was down 4.7%, and the Russell 2000 small cap index was down over 10%. And as I reflect on the day, I feel a bit like I do after a good workout—exhausted but energized, calm but focused.

Indiscriminate selling

Some of the following is admittedly my own perception, but today was a day, perhaps even more than other days recently, when selling at times appeared indiscriminate. Some companies' stocks are clearly and dramatically affected by the coronavirus and related impacts on economic activity, such as those firms in the travel and leisure sectors. The market is engaging in "price discovery;" coming to an estimate of the current value of those stocks based on new information. But some other companies that we believe have great businesses suffered massive declines today and the reasons for the extent of those declines aren't clear to me based on any fundamental analysis.

Even the prices of U.S. treasury bonds declined today (that is, yields increased). Normally, in a "risk-off" environment when investors are looking for safe assets, the prices of treasury securities increase. One factor driving the increase in bond yields could be a concern by investors over the likely increase in deficits to pay for government coronavirus programs and stimulus spending. However, I believe a significant driver of the selloff in treasury bonds is that investors were looking above all to hold cash and cash equivalents.

We see this phenomenon in many different markets. In times of extreme stress, market participants often sell whatever they're able to sell and that's often the more liquid investments. The high-yield or "junk" bond market is a good example. Counterintuitively, the higher quality bonds within the high-yield space (the less 'junky' junk bonds) often are the first to sell off because the even lower quality high-yield bonds are less liquid and trade very little or not at all.

Even in the stock market, which is generally very liquid, we see some of this type of selling on days like this. Investors want to have cash, either to reduce risk or perhaps to buy stocks that have significantly declined. So, they sell some of their more liquid holdings, perhaps stocks that haven't gone down as much. Stocks of great companies can sometimes trade at very attractive valuations in such periods of market stress.

Remember what you're buying

The lesson, I think, is not to pay too much attention to market prices in times of extreme volatility. Remember that when you buy a stock, you're buying a part of a business and a share of that business's long-term earnings. When you buy a bond, you're indirectly lending money to an issuer and relying on its ability to pay you back.

This brings me back to why I—and I believe I can speak for the rest of our investment team as well—feel energized. When markets are going up in a relatively steady fashion and with low volatility, it can be harder to add value through stock or credit selection. It is times such as these when the value of active management can be most evident. We believe it's critically important to analyze individual securities, and we seek to buy those securities that we believe have been beaten down unnecessarily and represent good value.

So we're excited for the markets to open again in the morning. I'm keeping a close eye on the news and on the overnight futures markets. We'll be back at it again shortly, looking for opportunities for our investors. Tomorrow is another day, and we're going to do our best to make it a good one.

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