Thackray Report

Volatility of a Different Kind - Interday Sector Volatility

September 13, 2021

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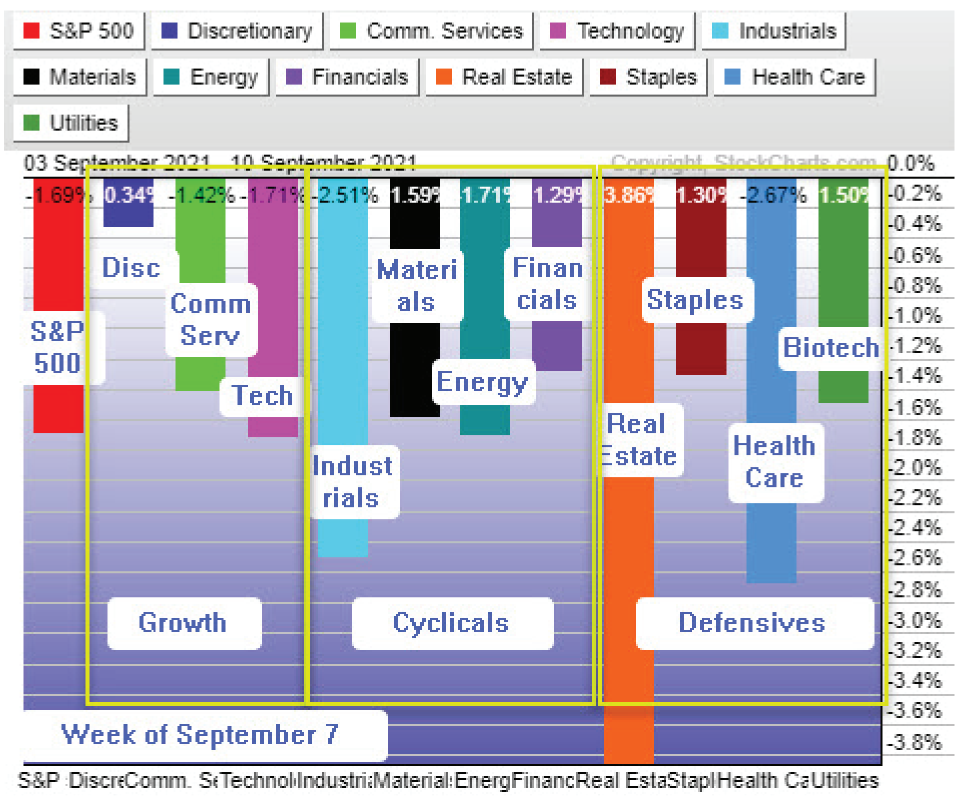
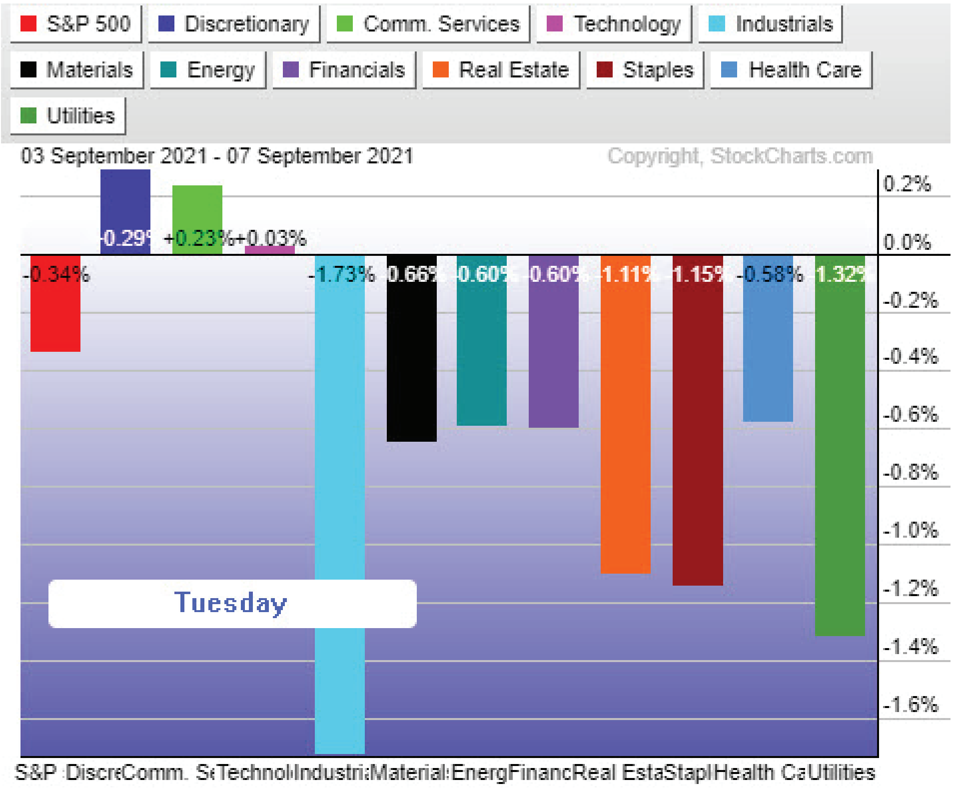
Interday sector volatility has been high. This often indicates that the market is waiting for the next narrative, or driver to dominate the market and push it higher or lower.

A lot of investors think that volatility is just measured by the CBOE Volatility Index (VIX), but there are many different measurements in different markets. Although there is not an interday sector volatility measurement (note to self: develop one), relative daily sector movement is an indicator of different conditions in the stock market. Please note than some people prefer the term inter-day, but interday also correctly defines the concept of "between subsequent days."

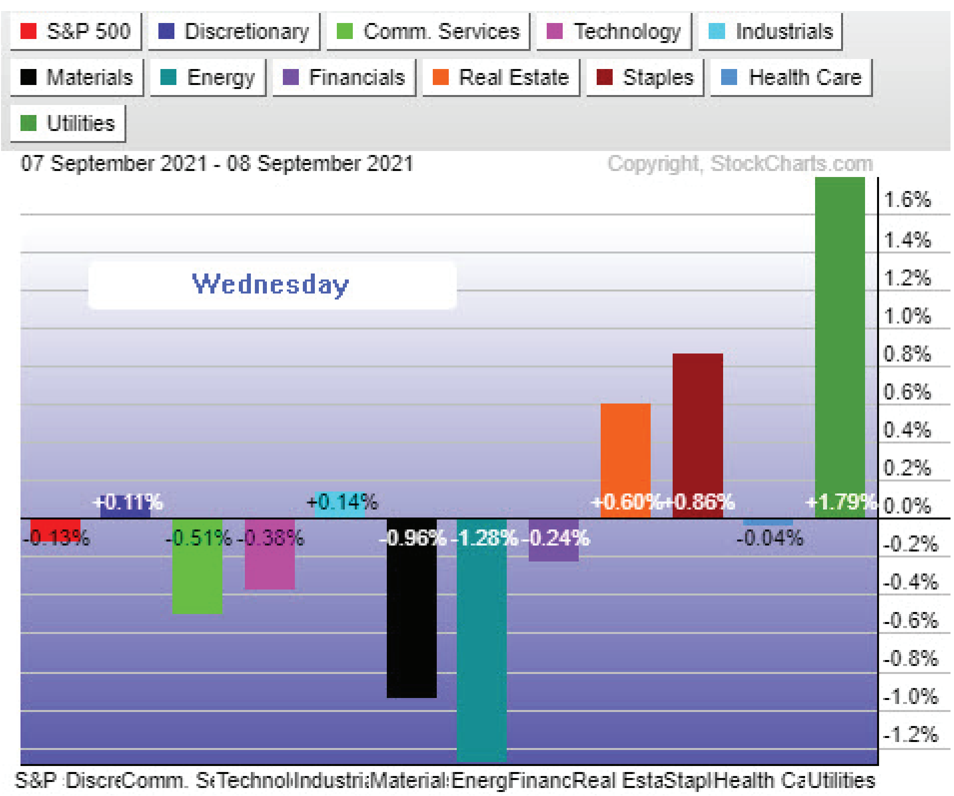
When a macro theme dominates the stock market, typically there is some consistency of sector domination from day to day and also parts of the market, such as growth, cyclicals and defensives. When one sector strongly outperforms one day and strongly underperforms the next day and then strongly outperforms once again the following day, this is often a sign that the stock market is looking for direction, especially when this is happening across a number of sectors. This is also true when the market quickly cycles between growth, cyclicals and defensives parts of the market. This daily interday volatility is what we are seeing in the stock market right now. Is the stock market about to establish a sustained direction as a catalyst unfolds?



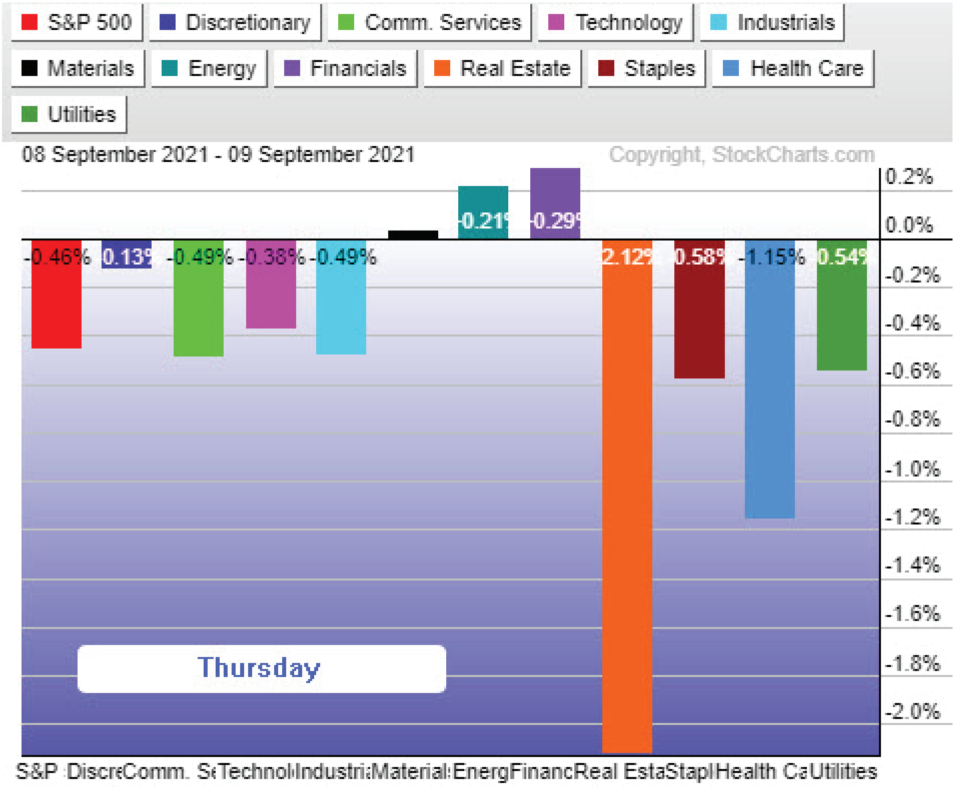
Last week was a shortened week with Labor Day falling on Monday. Overall, the S&P 500 was negative for the week. The big major sector (S&P GICs) loser for the week was the Real Estate sector. This was partly the result of the real estate sector bouncing "down" from a gain of over 4% in the previous week. The top performing sector last week was the consumer discretionary sector. On Tuesday, the stock market was lower. The consumer discretionary sector was the top performing sector and the worst performing sector was the industrial sector. Tuesday's relative gains and loss ranking is very similar to how the week ended up.



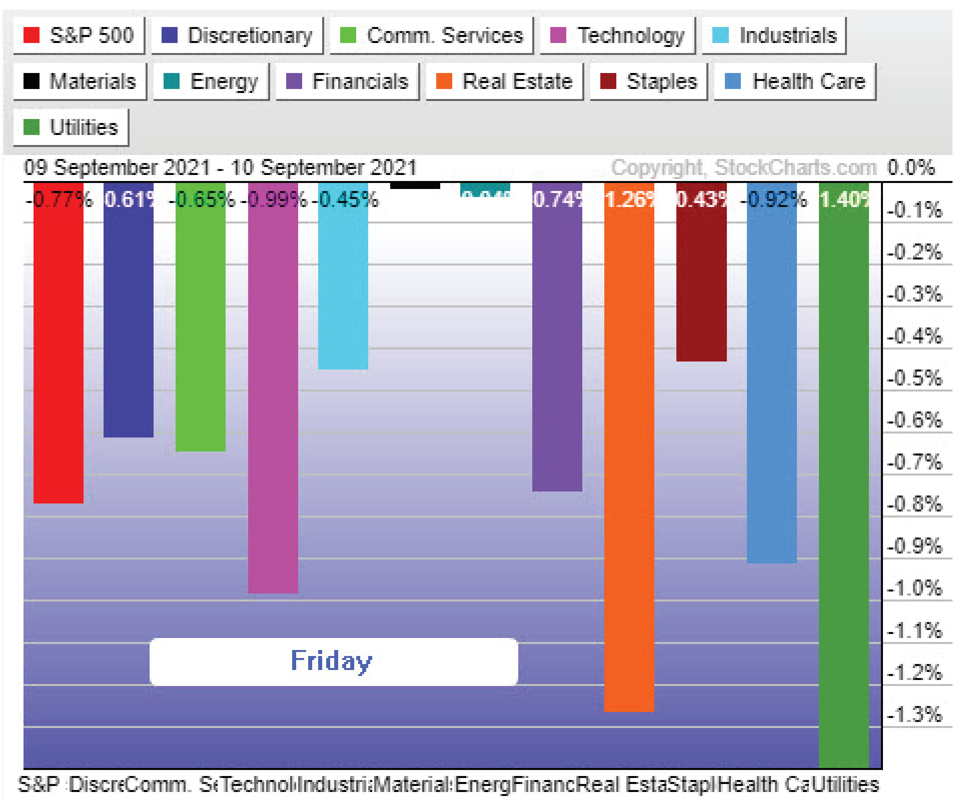
On Wednesday, relative sector performance was shuffled. The defensive sectors were generally the best performers, with utilities being the top performing sector.



On Thursday, everything flipped with the defensive sectors generally performing poorly, the cyclical sectors were the best performing and the growth sectors were all negative.



On Friday, the best performing sectors were the cyclical sectors. The worst performing sectors were the defensives, and the growth sectors' performance was in between the cyclicals and defensive sectors.



Last week, the sectors and their grouping rotated back and forth. One day the utilities sector was the best performing sector and a few days later it was the worst performing sector. The energy sector was one of the best performing sectors and the next day it was the worst performing sector.

The cyclical, growth and defensive sectors also jostled for position last week. Of course, there is typically some fluctuation in the market, but when it increases above the norm, investors should be monitoring the market for a new narrative developing that could potentially push the stock market higher or lower. Investors should look for the confirmation of this new narrative taking hold by increasing volume in the relevant sector(s) and the broad market. Currently, volumes have been declining as the S&P 500 has been moving higher. A spike in volume should be easy to determine.

Currently, the Q2 earnings season is winding down and as a result the earnings of the remaining companies will probably not have a huge impact on the markets. The government is no longer announcing COVID relief programs and its proposed $3.5 trillion spending program is looking less like to be passed. The result is that government actions in the short-term are less likely to have an impact on the markets.

There are always the economic reports such as the CPI number to be released on Tuesday September 14, 2021. This report could be important in providing more information about whether expectations of the Federal Reserve tapering in the future should be modified. A miss to upside could shift the narrative to persistent inflation with a corresponding shift to the cyclical sectors of the market. A miss to the downside could shift the narrative to the inflation receding helping to support the bond market and bond proxies.

Looking forward, the bigger narrative "shifter" could be the Q3 earnings season which is fast approaching in October. Year over year earnings growth is expected to recede compared to Q2. Even though this is expected, just the fact that earnings are "tapering," could shift the narrative. To help determine if the narrative is shifting the market for a sustained directional move, watch for a shift to reduced interday sector volatility.