

[FURNITURE TEXT/VISUAL WITH MARKET SUMMARY: INDICES, AN APPLICABLE COMMODITY, VIX, AND 10yr TREASURY BENCHMARK]

Happy Tuesday and welcome to the first edition of the Alpaca Markets Breakdown. Each week, we'll use this space to break down happenings in the world of finance and capital markets. These stories will often have a focus on events capturing the economy of thought in algorithmic and high-volume trading, FinTech, and other related topics. In the last week, markets have experienced a correction of more than 5%, which leads us into our two stories for the day:

Volatility rises after President Trump tests positive for COVID-19

President Trump and the first lady tested positive for COVID-19 after a high-level White House official tested positive on Monday.

 **Markets fell** after the news broke early on Tuesday morning, with futures of all four major indices trading down more than 1%.

 **Safe havens and volatility** surged as money rushed into bonds, gold, and the VIX. As of 4am, VIX futures for the front month were up more than 8%.

The bottom line: Markets, already turbulent because of the forthcoming U.S. election, are likely going to become more frothy in the days ahead. President Trump's diagnosis has stirred the pot for investors. As of this hour, the Biden campaign has not responded to Trump's diagnosis. However, both campaigns' response to this October Surprise might radically change analysts' predictions on who is likely to win in November.

Market summary >

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[Indices](#) [Currencies](#) [Futures](#) [Crypto](#) [Bonds](#)



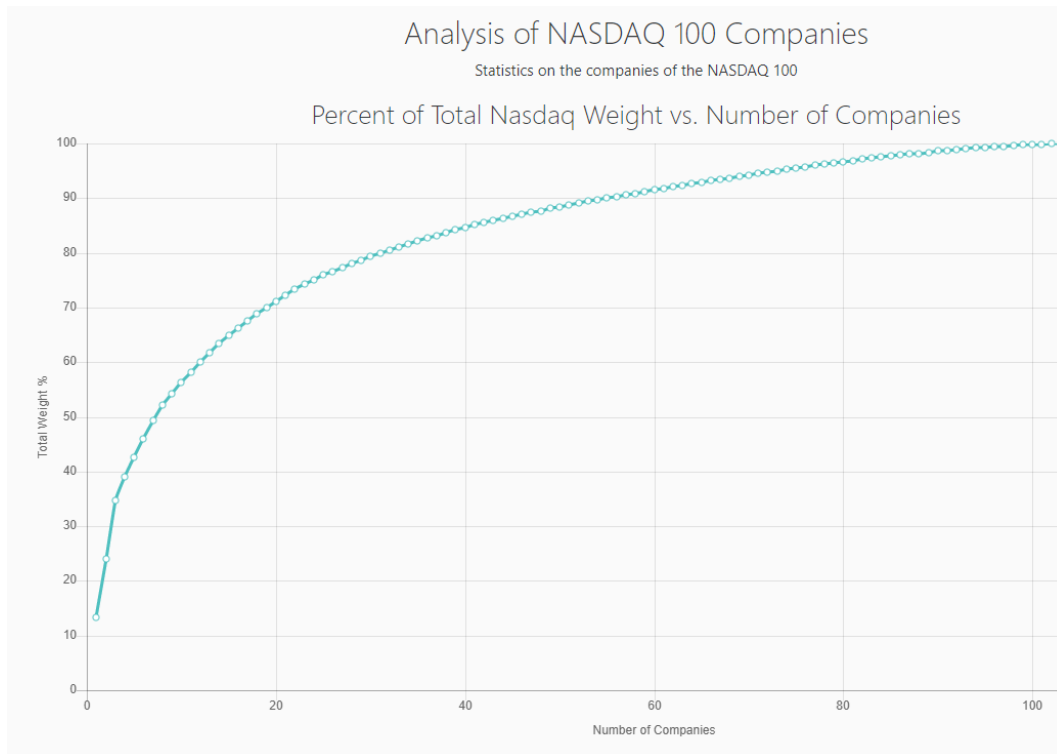
1D 1M 3M 1Y 5Y All

 S&P 500 S&P 500 E-MINI FUTURES	3331.75 ^D	-1.07% -36.00
 Nasdaq 100 NASDAQ 100 E-MINI FUTURES	11424.50 ^D	-1.30% -150.25
 Dow 30 E-MINI DOW JONES (S5) FUTURES	27393 ^D	-1.07% -296
 Russell 2000 E-MINI RUSSELL 2000 INDEX FUT...	1507.4 ^D	-1.31% -20.0
 U.S. Dollar Index U.S. DOLLAR INDEX FUTURES	93.785 ^D	+0.02% +0.025
 Bitcoin Index BITCOIN / U.S. DOLLAR INDEX	10490.69	-1.22% -129.67

[scroll down for the remainder - we can format when we are done, but this can give you textual ideas of what to anticipate]

Are Index Funds Worth the Weight?

Since the Financial Crisis in '09, America's 401(k)s, IRAs, 529s, and other financial accounts have moved away from actively-traded funds in preference of their passive counterparts. Index funds have created prosperous gains and [attracted a critical mass from investors in the U.S.](#) One such index fund, [\\$SPY, has swelled to nearly \\$300bn in assets under management.](#)



[Source: Slickcharts.com](https://www.slickcharts.com)

Many index funds are tracking indices which are **overweight on tech and software** stocks. A commonality among indices is the presence of Big Tech players such as Amazon, Apple, Google, and others. 🖥️

- Of the top 10 stocks in the NASDAQ 100, the top 10 companies in the fund represent more than half (56.6%) of the allocation.
- The S&P 500 has a similar overlap of stocks with the NASDAQ. Those top 5 stocks shared between the two represent over a fifth (21%) of the allocation.

The bottom line: Investors have a lot of money wrapped up in passively managed index funds which have outperformed the market for the last decade. After the coronavirus, it's time to wonder if there are better places to put your money to work. This doesn't mean "it's time to pull all your money from index ETFs," but it's a kind awakening that - given the political, regulatory,

Noah Weidner for Alpaca Markets
Alpaca Test Newsletter (9/21) + (10/2 Revision)

and legal turbulence with Big Tech - there's a lot to lose if even one of these large players trips up.

That's a wrap for this edition of the Alpaca Breakdown. We'll be back in your inbox next Tuesday to break down the stories that are making markets move. In the meantime, happy trading & enjoy your rest of the week.

President Trump lays out the bull case for FinTech apps

During a nationally televised town hall last week, President Trump proclaimed that "Everybody owns stocks." While it's true that a large volume of Americans have employer plans such as 401(k)s, a large number of Americans don't own any equity positions.

The reality is that most Americans are largely excluded from America's greatest source of financial growth and prosperity: the stock market. The bottom 80% of Americans comprise a paltry 6.7% ownership of all equity positions while their high-earning counterparts in the top 10% own nearly 84% of equities. In a time where the stock market is delivering radical returns, that's a painful thing to hear - but this also succinctly captures the bull case for the consumer financial tech market.

There is ample opportunity to capture and include more Americans in the financial system, and venture firms are betting big on a future based on digital money and accessibility. In 2020, \$26.5bn has been invested in global fintech companies - which is 14% of all investment dollars made in venture this year. It's also capturing a greater share of consumer attention according to a new survey commissioned by Plaid. Americans feel that fintech is "the new normal" in the era of COVID-19, and an impressive volume of them are now managing the majority of their money, banking, and stocks online.

Are Index Funds Worth the Weight?

Since the Financial Crisis in '09, America's 401(k)s, IRAs, 529s, and other financial accounts have moved away from actively-traded funds in preference of their passive counterparts. The index fund has received the bulk of that love, with index funds like \$SPY swelling to nearly \$300bn in assets under management.

The lion's share of index funds are wrapped up in one particular segment more than any other: tech, and specifically the 'big' kind. Companies like Apple, Amazon, Facebook, Alphabet, and Microsoft have been heroes of The Street for the last decade and their weighting in index funds reflect that; more than a fifth of the S&P 500 is wrapped up in just those stocks. That heavy weighting for tech is paralleled in both the NASDAQ and Dow Jones Industrial Index.

Amidst increasing regulatory and legal scrutiny for these index heavyweights, investors might need to reexamine their strategy. Investors rely heavily on Big Tech, which is already trading at considerable premiums. Sure, they could jump the hurdles ahead and business would continue as usual. However, if any of these companies trip up, it might undo the comfortable paradigm that investors have grown accustomed to in passive investing.

It's The Most IPO Time of the Year

Though there's uncertainty on Main Street, stocks are returning to their pre-COVID lows on Wall Street. Companies have eyed the comeback from the March 'COVID blues' lows in stocks and seen the impressive comeback this year; needless to say - they're sold. Dozens of companies have decided to go public in the era of COVID. Last week, the biggest software IPO in history teed off as Snowflake (\$SNOW) went public. The stock more than doubled from its appraised list price on the first day of trading and ended up valued at nearly \$70bn. Companies, It's a dizzying disconnect between the economy as we see it and what we see in markets.

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Among companies filing S-1s and examining IPOs are rental app Airbnb, dating site Bumble, and big data (that's code for: government contracting giant) Palantir Technologies. Of course, some companies are skipping the wait entirely and being acquired in 'blank check' (SPAC) company arrangements. One such famous event involving a blank check company this year was the acquisition of Nikola, an EV company which is now being investigated for lying about their products to investors.

Whether the IPO and SPAC train will remain full-speed ahead is hard telling at this time, but the prospect of big money has continued pushing public offerings along even amidst the uncertainty in the market.

That wraps our first edition of the Alpaca Breakdown. We'll be back in your inbox on Tuesday for more updates about the happenings in markets and the financial space.