

## Market View – Are Freaky Fridays a thing?

By Warren Lovely

We're only 35 week days into 2020, but already a daily trading pattern looks to have emerged in many corners of financial markets. At its root, this pattern involves a fear of being long risk over the weekend, leading to aggressive positioning on Fridays. As our selection of charts aim to illustrate, the average Friday flow in 2020 could be characterized by: relatively elevated vol (Chart 1), bull flattening in rates (Charts 2-4), shrinking stock valuations (Charts 5-6) and wider credit spreads (Charts 7-8). This Friday effect has been fairly consistent, contrasting meaningfully with (a) YTD average changes for the other days of the week; and (b) the typical Monday to Friday trading patterns established in recent years. Also noteworthy: in some cases, the Friday fear factor emerged in spite of reassuring economic releases (e.g., sturdy Canada-US jobs data on Friday 7-Feb; surging US housing starts on Friday 31-Jan).

Traditionally, this behavior would be labeled "risk off", but a catchier alliteration might be "Freaky Friday". End-of-week anxiety is understandable, given this year's highly uncertain and rapidly evolving landscape (both in terms of geopolitics and, perhaps most troubling, the novel coronavirus). It's simply hard to say with any real conviction what type of world investors will return to at the start of a given trading week, and a seemingly asymmetric distribution of risks (tilted to the downside) argues for defensive positioning.

This note is decidedly of the "observational" variety, and we'll dedicate our few remaining words to caveats/cautions. First off, our year-to-date sample is obviously tiny; we have just seven observations for each day of the week, as opposed to 52-53 in a full year. And some of our 2020 week days have been partly impacted/nullified by holiday closures. We've not fully controlled for every data release or event, with central bank decisions having influenced trade during certain weeks. More generally, liquidity can be thinner on Fridays, which could exacerbate end-of-week moves. Nor is "risk off" behavior entirely contained to Fridays; **today might go down as a "Troubled Tuesday", based on falling bond yields**. Moreover, not all markets behave uniformly. The worst day for crude (WTI), on average, has so far been Monday, not Friday (Chart 9). Daily trading patterns in currency markets are likewise harder to isolate; Friday's haven't been kind to the loonie (Chart 10), but gains in the broad-dollar index (DXY)—often synonymous with risk aversion—have been more pronounced on the other days of the week. Finally, we always attach a degree of caution to seasonal analysis; notwithstanding investor perceptions, seasonals aren't consistently tradeable in most cases. So, to the extent a legit end-of-week tendency is emerging in 2020, astute investors might start to front-run Freaky Fridays. Any prospective flows might serve to arb out what has been a pretty observable tendency so far this year. Until then, you might want to tread carefully as the week draws to a close. So much for TGIF.

### Table: Early in 2020, investors have been decidedly risk averse on Fridays

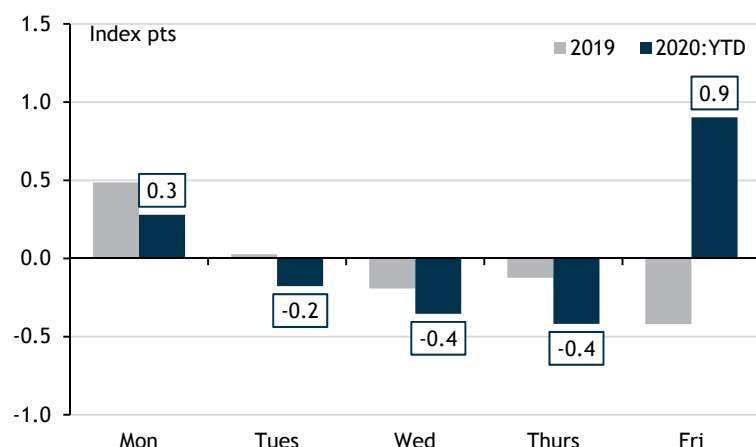
Average daily change in selected financial market variables by day of the week (2020:YTD as at Tuesday 18-Feb @ 12:00 EST)

| Day       | Day count # | Bond yields |             |            |             | Equities  |           |         | Credit       |              |               |             | Currencies |       | Commodities |       |        |
|-----------|-------------|-------------|-------------|------------|-------------|-----------|-----------|---------|--------------|--------------|---------------|-------------|------------|-------|-------------|-------|--------|
|           |             | UST 2Y bps  | UST 10Y bps | GoC 2Y bps | GoC 10Y bps | S&P 500 % | S&P/TSX % | VIX pts | US IG 5Y bps | US HY 5Y bps | EUR IG 5Y bps | ONT 10Y bps | DXY %      | CAD % | WTI %       | WCS % | Gold % |
| Monday    | 7           | 0.2         | -0.3        | -0.5       | -0.2        | 0.13      | 0.13      | 0.3     | 0.2          | 1.9          | 0.1           | 0.0         | 0.05       | 0.05  | -1.06       | -0.53 | 0.00   |
| Tuesday   | 7           | 0.4         | 0.5         | 0.9        | 0.9         | 0.18      | 0.26      | -0.2    | -0.4         | -1.9         | -0.4          | 0.0         | 0.10       | 0.01  | -0.35       | 0.91  | -0.14  |
| Wednesday | 7           | 0.4         | 0.5         | -0.5       | -0.5        | 0.34      | 0.24      | -0.4    | -0.6         | -1.5         | -0.3          | -0.5        | 0.12       | 0.10  | -0.58       | -0.29 | 0.03   |
| Thursday  | 7           | -0.1        | -1.4        | -1.2       | -1.7        | 0.42      | 0.22      | -0.4    | -0.3         | -1.3         | 0.1           | 0.3         | 0.13       | 0.03  | -0.29       | -0.66 | 0.24   |
| Friday    | 7           | -3.4        | -4.7        | -2.2       | -4.1        | -0.52     | -0.22     | 0.9     | 1.0          | 4.1          | 0.2           | 0.4         | 0.02       | 0.10  | -0.20       | -1.01 | 0.67   |

Note: For each financial market variable, figures represent average daily change by day of the week; based on 2020:YTD (currently 35 week days); shaded used to relative change, with red typically consistent with "risk off"  
Sources: NBF, Bloomberg

### Chart 1: Vol tends to pick up...

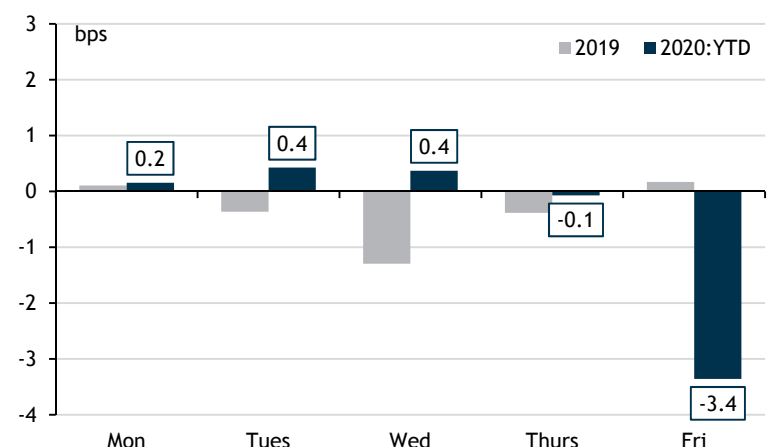
Average daily change in US equity market volatility (VIX)



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 2: ... and bond yields head down on Fridays

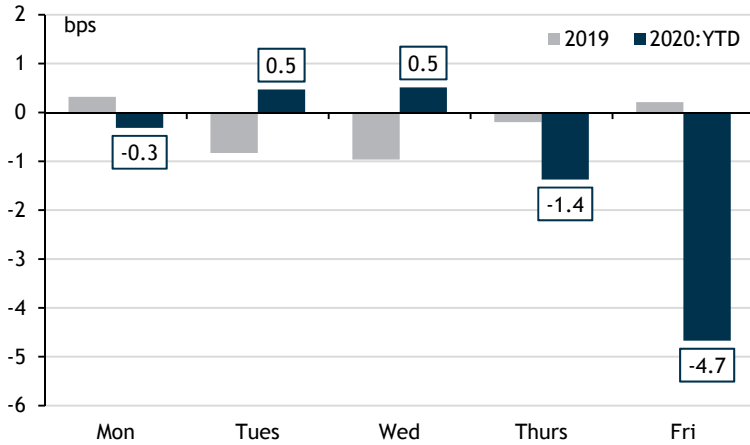
Average daily change in UST 2-year bond yield



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 3: US 10Y reaction every bit as striking...

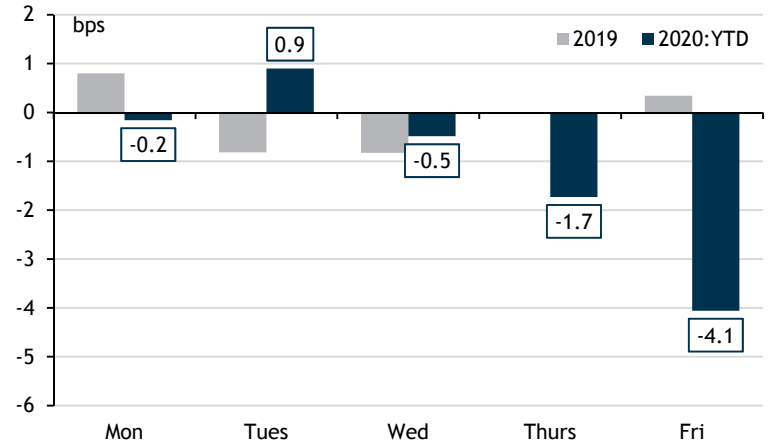
Average daily change in UST 10-year bond yield



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 4: ... and move well observed in Canada too

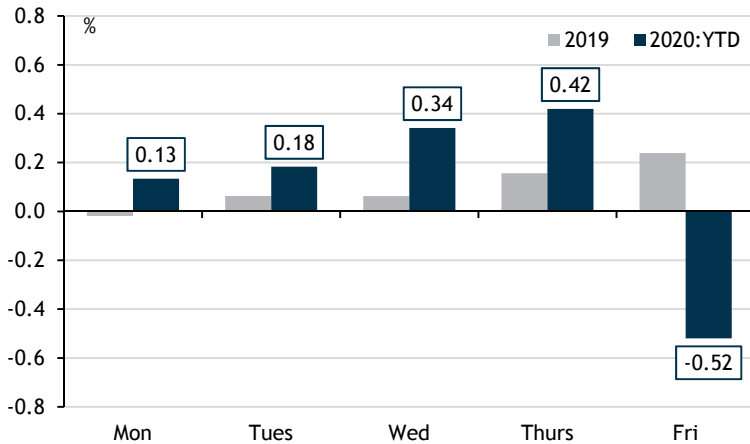
Average daily change in GoC 10-year bond yield



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 5: A Friday slump for S&P 500 (on average)

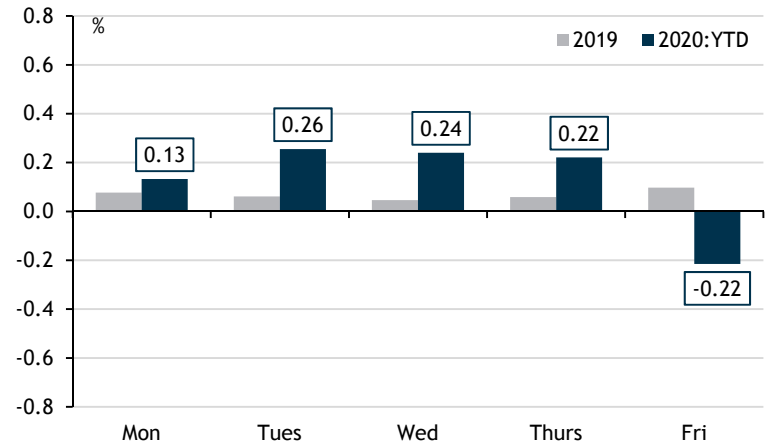
Average daily change in S&P 500 Index



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 6: Hasn't been quite as bad for S&P/TSX

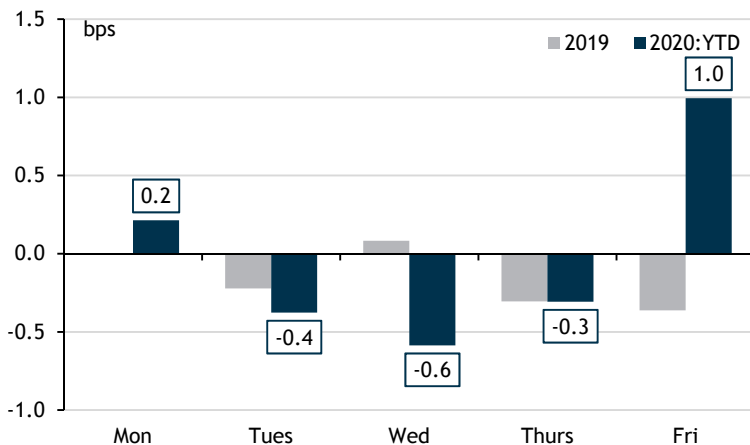
Average daily change in S&P/Toronto Stock Exchange Composite Index



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 7: US corporate credit buys into pattern

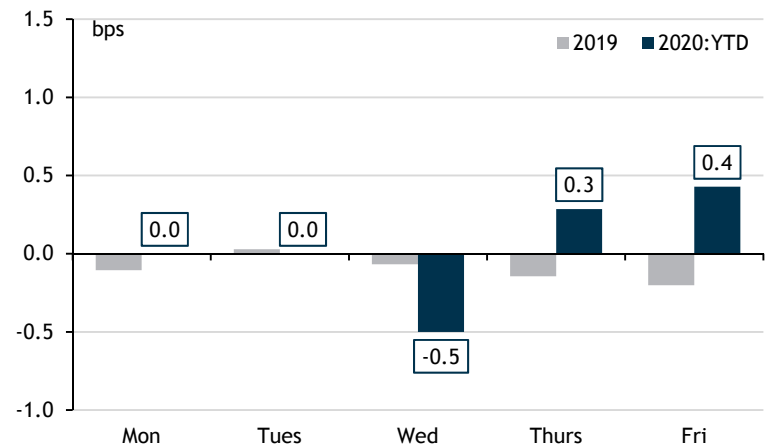
Average daily change in Markit CDX North American IG Index (5Y)



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

### Chart 8: Fridays not great for provi spreads either

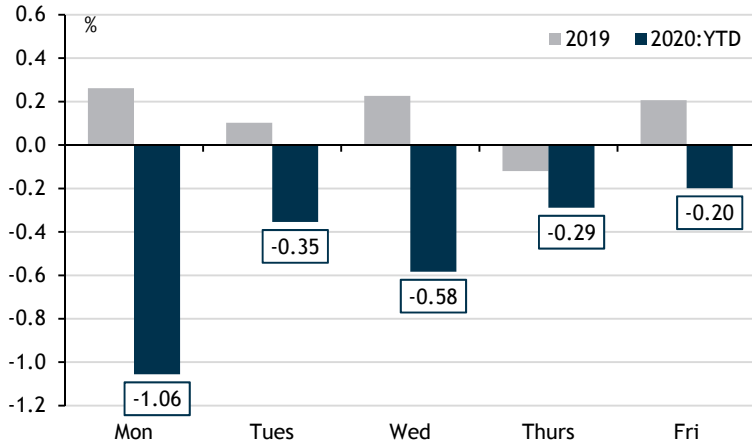
Average daily change in Ontario benchmark bond spread vs GoC (10Y)



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

**Chart 9: Daily price patterns different for oil...**

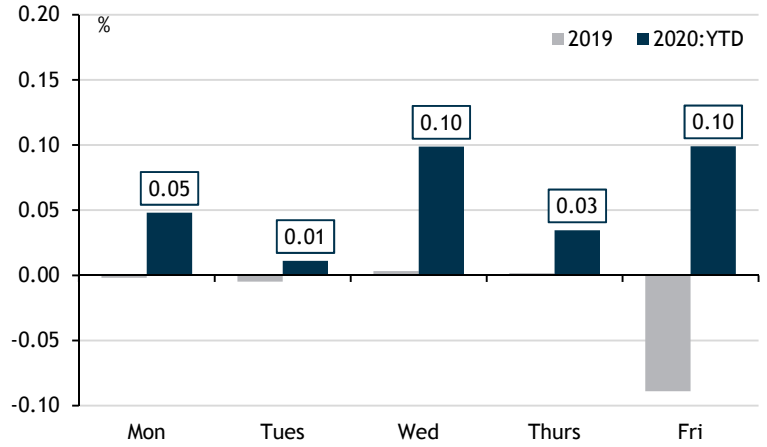
Average daily change in US crude oil (WTI spot)



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

**Chart 10: ... and harder to isolate in FX markets too**

Average daily change in Canadian dollar (CAD spot)



Source: NBF, Bloomberg | Note: 2020:YTD as at 18-Feb @ 12:00 EST

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