

## 2ND QUARTER 2020

### MARKET COMMENTARY

#### THE QUARTER IN BRIEF

As a new quarter begins, we look back on an eventful second quarter for households and investors – a quarter in which the economy took a mighty hit, while the stock market soared. Complying with stay-at-home orders, Americans abruptly cut back on discretionary spending, traveling, and commuting, resulting in a dire scenario for some industries. Unemployment rose as business revenue declined. Fundamental economic indicators saw big swings, and on one trading day, oil prices actually collapsed into negative territory. Homes became easier to finance; though, transactions declined. The Federal Reserve made proactive moves to try and foster a bit more economic stability. While Main Street quieted, Wall Street rallied, sensing that an economic rebound might be starting. The Standard & Poor's 500 gained 19.95% for the quarter.<sup>1</sup>

#### DOMESTIC ECONOMIC HEALTH

The economy was certainly thrown for a loop this spring. Statistically speaking, some of the numbers were startling. Others were not as bad as some analysts thought they would be.

As workers were laid off, the jobless rate went north. The April employment report from the Bureau of Labor Statistics showed unemployment at 14.7% in March, with 78.3% of this population being furloughed with the potential to return to their jobs. May's report showed a record monthly job gain, as nonfarm payrolls swelled with more than 2.5 million net new hires in April; the jobless rate fell to 13.3%. As the May numbers went public, however, the BLS admitted it probably undercounted the furloughed in April and that unemployment likely topped 16% in the fourth month of the year. The U-6 unemployment rate, which also counts part-time workers and discouraged job seekers, reached 21.2% in May.<sup>2</sup>

Many Americans received an economic stimulus from the federal government this spring, an Economic Impact Payment of up to \$1,200, resulting from the passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Will there be another? With the

current \$600 monthly boost to unemployment insurance slated to fade away at the end of July, a decision on a second stimulus payment could happen in the third quarter.<sup>3</sup>

The stay-at-home orders hurt consumer spending and retail sales, but there was also a comeback. Personal spending weakened 12.6% in April, while retail sales slumped 14.7%. May's numbers were different: with help from states relaxing stay-at-home orders, personal spending rose 8.2%, and retail sales advanced 17.7%.<sup>4</sup>

Americans definitely put more of their money in the bank during Q2, or at least, under the mattress. The personal savings rate, already up to 12.7% in March, increased to a record 33.0% in April. It was still at 23.2% in May.<sup>5</sup>

The Conference Board's monthly Consumer Confidence Index stayed under 90 in the first two months of Q2 before staging a June rebound. The gauge came in at 85.7 in April, 85.9 in May, and 98.1 in June. The University of Michigan's Consumer Sentiment Index never cracked 80. It displayed an April reading of 71.8, a May reading of 72.3, and a June mark of 78.1.<sup>6,7</sup>

Monthly reports from the Institute for Supply Management found that the service sector had contracted sharply at the start of spring along with manufacturing. ISM's Purchasing Managers Index for service businesses came in at 41.8 for April and 45.4 for May; any number under 50 indicates reduction rather than growth. The Institute's factory PMI showed similar numbers: 41.5 in April, 43.1 for May.<sup>8</sup>

Amid all these developments, the Federal Reserve remained proactive. With short-term interest rates back near zero, the central bank used other tools to try to help the economy and send dovish signals to financial markets.

In their June 10 policy statement, Fed officials pledged to increase their purchases of Treasury notes and mortgage-linked securities in the "coming months." During each month of Q2, the Fed bought \$80 billion of the former and \$40 billion of the latter. On June 15, following up on a provision of the CARES Act, the Fed announced that it was ready to build a portfolio of investment-grade

corporate bonds, as a nod to big businesses dealing with financial anxieties. The median 2020 forecast of Fed policymakers now projects 9.3% joblessness by the end of the year and gross domestic product (GDP) retreating 6.5% for 2020. Most Fed officials now think short-term interest rates will remain at historic lows into 2022.<sup>9,10</sup>

Last month, the private-sector National Bureau of Economic Research, a respected arbiter of U.S. economic cycles, stated that America's ten-and-a-half-year economic expansion had ended. By its analysis, a recession had begun in February.<sup>3</sup>

#### GLOBAL ECONOMIC HEALTH

During April, the International Monetary Fund forecast the global economy to shrink by 3.0% in 2020. In June, it estimated the economic damage would be worse. The IMF's chief economist, Gita Gopinath, termed the coronavirus pandemic a crisis "unlike anything the world has seen before," one that could send both developed and emerging economies simultaneously into recession for the first time since the 1930s. Gopinath did state that "pent-up consumer demand" for goods and services might hasten a global rebound.<sup>11</sup>

#### LOOKING BACK, LOOKING FORWARD

The rally that started in late March continued in the second quarter. Traders were encouraged by better-than-expected earnings in certain industries, positive news about potential COVID-19 treatments and vaccines, and the commitment of the Federal Reserve to address turbulence in the economy and the markets.

All three of the big Wall Street benchmarks recorded their best quarters of the century. As you look at the table below, note the difference in their year-to-date performance. The Nasdaq Composite closed at 10,020.35 on June 10, reaching a new milestone. The Nasdaq ended Q2 at 10,058.77; the S&P, at 3,100.29; the Dow Jones Industrial Average, at 25,812.88.<sup>1,21</sup>

As this quarter starts, investors are wondering... is the worst of this recession now behind us? A quick answer may prove elusive. The third quarter may bring more signals that Main Street is bouncing back, but it could also bring a reversal of economic

...continued on back

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*"Character is  
much easier  
kept than  
recovered."*

- THOMAS PAINE

## 2ND QUARTER 2020 MARKET COMMENTARY (continued)

momentum if states continue to halt or reverse phases of opening. For the market to climb higher off of its Q2 melt-up, earnings and economic indicators have to keep showing improvement or least stability. The same goes for COVID-19 case counts. If they keep rising this summer, the bulls could easily be held back.

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The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSE 100 Index is a share index of the 100 most highly capitalized companies listed on the London Stock Exchange. BSE Sensex or Bombay Stock Exchange Sensitivity Index is a value-weighted index composed of 30 stocks that started January 1, 1986. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The CBOE Volatility Index® is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The S&P SmallCap 600® measures the small-cap segment of the U.S. equity market. The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of

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