

Last Week's Economic/Market Summary – May 4, 2020

Data

- U.S. equity benchmarks moved mostly lower last week.
 - S&P 500 -0.21% Dow -0.22%, Russell 2000 +2.23%, Nasdaq -0.34%¹
 - The All-Country World Index gained 1.17%.¹
 - S&P 500 sub-sectors were notably mixed last week.
 - Energy led to the upside with a gain of 3.55%.¹
 - Utilities & Healthcare led to the downside with losses of 4.18% & 2.45%.¹
 - The CBOE Volatility Index (VIX) gained 3.5% to end at 37.19. ¹
- US Treasury bonds were mixed last week.
 - US 2yr -0.03% to 0.19%, US 10yr +0.01% to 0.61%, US 30yr +0.08% to 1.25%.¹
 - Investment Grade Corps were lower on the week while High-Yield moved slightly higher.
- Commodities as an aggregate asset class were slightly higher last week as oil bounced off the lows.
 - WTI Crude gained almost 17%.¹
 - Gold lost 2%.¹
 - The US Dollar index dropped 1.52%.¹
- In our opinion, U.S. economic data was negative last week.
 - Unemployment claims rose by 3.83 million; 6 week total to over 30 million. ¹
 - 1st Quarter US GDP contracted at a 4.8% annualized rate. ¹
 - The ISM Manufacturing Index declined to its lowest level since 2009. ¹
- An index of equities outside the US (MSCI EFA) were mostly unchanged last week.

¹ Source: Bloomberg – 5/1/20

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Conclusion

- US equity markets moved mostly lower last week as investors seemed to be watching profit warnings tied to the coronavirus and renewed tension between the US and China.
 - S&P 500 -0.21% Dow -0.22%, Russell 2000 +2.23%, Nasdaq -0.34%
 - April was the best month for the S&P 500 since January '87, but risk sentiment faltered on Thursday and Friday.²
 - It had been up as much as 3.9% mid-week on reopening hopes and Covid-19 drug news.
 - The small-cap tracking Russell 2000 was the only positive major US index on the week.²
 - We believe this was largely the result of “position squaring” by large institutions as they reduce large positions...in the case of the Russell 2k, a massive short against the index.
- S&P 500 sub-sectors were mixed last week.
 - The Energy sector was the only positive sector last week.
 - Utilities & Healthcare led to the downside.
 - In our opinion, last week’s sector performance was almost entirely driven by institutions reducing shorts and overweight bets. (aka: cleaning house)
- With over 55% of S&P 500 companies reporting earnings thus far, earnings per share are down 9%.²
 - Revenue growth has been a measly 1%.²
 - We believe the bigger takeaway is the large number of co’s pulling forward guidance.
 - The amount of uncertainty is truly historical; even at the top of major corporations.
 - Additionally, many companies are suspending or canceling their dividends.
 - So far in 2020, co’s have cut dividends more than in the previous 10 years combined.²
- Major central banks met last week and all reaffirmed their commitment to supporting the economy.
 - The Fed kept rates near zero and signaled they’d stay there for much longer.²
 - The European Central Bank extended their large bond purchase program through year-end.²
 - The Bank of Japan lifted their cap on its bond purchase program.²
- In our opinion, the recent onslaught of weak economic data has underscored the disconnect between the economy and the stock market.
 - With jobless claims exceeding 30 million in the past 6 weeks, economists estimate the US’s unemployment rate to be above 15% at present time.²
 - If this level is true, it would be the highest level since the Great Depression.
 - Buried in the 1st quarter GDP drop of 4.8% was a Personal Consumption freefall of 7.6%.²
 - This is the largest drop of consumption since 1980.²
 - As discussed in the past, consumer spending is a massive part of the US’s GDP and if their expenditures don’t pick up as the economy unthaws, it will bring fresh pressures.

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² Source: Bloomberg – 5/1/20

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