June 8, 2020

Greetings,

I cannot remember a time when I've seen such a widespread disparity between what is happening in the economy and what is happening in the stock market.

Let's take a moment to briefly outline the situation using hard data.

The unemployment rate soared to a post-depression high of 14.7% in April, while the survey of businesses by the U.S. Bureau of Labor Statistics revealed a loss of 20.5 million jobs in April, the worst monthly reading since records began in 1939.
In a single month, nearly all of the jobs created after the financial crisis disappeared, at least temporarily.

April's 11.2% drop in industrial production, a metric the Federal Reserve has tracked since 1919 – is the biggest monthly decline on record. Furthermore, consumer spending in April fell 13.6%, the biggest decline ever recorded (U.S. BEA, data back to 1959).

Record layoffs continue, with the number of first-time claims for unemployment insurance topping 40 million over a 10-week period ending May 23 (Dept. of Labor/St. Louis Federal Reserve). Put another way, nearly one in four working Americans have experienced a job loss.

If there is any good news, it is that the number of first-time filings has been declining, and the number of individuals who file on a regular basis in order to receive jobless benefits is about half the number of first-time filings.

This would suggest that paycheck protection loans are kicking in, and reopenings are encouraging businesses to recall furloughed workers. Still, May's employment report will likely show another rise in the jobless rate.

Let's back up for a moment.

In April, I noted that, "In just a three-week period, the number of first-time claims for jobless benefits totaled an astounding 17 million. For perspective, during the 18-month-long 2007-2009 recession…first-time claims totaled 9.6 million."
Yet, "The Dow Jones Industrial Average added 2,107 points over the three Thursdays the massive number of new claims were released (St. Louis Fed)."
Since then (April 9), the Dow has added 1,664 points, or 7.0% (St. Louis Federal Reserve). It is up 36.5% since its near-term March 23 bottom.

The broader-based S&P 500 Index eclipsed 3,000 by the end of May and has rebounded 36.1% (St. Louis Federal Reserve) from its March 23 low. Meanwhile the tech-heavy NASDAQ Composite has added 38.3%, is back above 9,000, and is nearing its all-time high (Yahoo Finance).

Simply put, economic activity is falling with depression-like speed, but the major averages are in the midst of an impressive rally.

Here's one more piece of performance data.

During the financial crisis, the S&P 500 Index lost nearly 57% from its October 2007 peak to the bottom in March 2009 (St. Louis Federal Reserve). This year, in about one month, the S&P 500 Index shed 34% before hitting a near-term bottom on March 23.

The adage "stocks climb a wall of worry" has never been more appropriate amid economic devastation and an outlook that remains incredibly murky.

A closer look at the Wall Street/Main Street disconnect

A combination of factors has fueled the rally since late March.

The response by the Federal Reserve has far outpaced its 2008 response, which has lent a tremendous amount of support to stocks. The same can be said of government fiscal stimulus.

Investors are also keeping close tabs on state re-openings, which will reemploy furloughed workers, help stabilize the economy, and set the stage for a possible economic rebound later in the summer. Talk of vaccines has also helped.
You see, investors don't simply look at today's data, which in many cases is backward-looking. Instead, they are forward-looking as they attempt to price in economic activity, the level of interest rates, corporate profits, and more over the next 6-12 months.

An approaching dawn

If we look at what is called "high-frequency economic data" (daily or weekly reports), we are beginning to see signs of stability.
Daily gasoline usage has rebounded (Energy Information Administration), daily travel through TSA checkpoints is up (TSA), hotel occupancy is off the bottom, and the same can be said of weekly box office receipts (Box Office Mojo).
In addition, the weekly U.S. MBA's Purchase Index (home loan applications) registered its fifth-best reading over the last year (as of May 22, U.S. Mortgage Bankers' Association/Investing.com), suggesting that low interest rates and some confidence that the U.S. economy is set to recover are lending support to housing.

Of course, these are highly unconventional measures of economic activity and are industry-specific. Outside the Purchase Index, each remains well below previous highs, but the turnaround suggests we may be seeing some light at the end of a very dark tunnel.

Collective wisdom

Any given level of a major stock market index represents the collective wisdom of tens of millions of stock market investors. It is not simply an opinion, but an opinion with money behind it.

When stocks were in a free fall in March, investors were anticipating a devastating blow to the economy. Tragically, the data did not disappoint.

Has the rally been too much, too quickly?

Even in the best of times, economic forecasting can be difficult. Today, the outlook is clouded with a much greater degree of uncertainty.

1. Will the virus lay down over the summer?
2. How will reopenings proceed?
3. How quickly can a readily available vaccine and treatment be developed?
4. What might happen to COVID-19 next fall and winter?
5. How quickly will consumers venture back in public and resume prior spending patterns?

These are difficult questions to answer.

Don’t expect a return to a pre-COVID jobless rate anytime soon. But investors are betting that an economic bottom is in sight.

Table 1: Key Index Returns

	MTD%	YTD%
Dow Jones Industrial Average	4.3	-11.1
NASDAQ Composite	6.8	5.8
S&P 500 Index	4.5	-5.8
Russell 2000 Index	6.4	-16.4
MSCI World ex-USA*	4.0	-15.5
MSCI Emerging Markets*	0.6	-16.5
Bloomberg Barclays US Aggregate Bond TR	0.5	5.5

Source: *Wall Street Journal*, MSCI.com, Morningstar, MarketWatch
MTD returns: April 30, 2020-May 29, 2020
YTD returns: Dec 31, 2019-May 29, 2020
*in US dollars

I understand the uncertainty facing all of us. We are grappling with an economic and a health care crisis, not to mention recent civil unrest. It’s a combination none of us have ever faced.

We have addressed various issues with you, but I have an open-door policy. If you have questions or concerns, let’s have a conversation. That’s what I’m here for.

7 steps to successfully steer your finances in a COVID-19 world

Since the economic crisis began, I have shifted my focus towards financial planning pieces that incorporate the COVID-19 crisis and its impact on your finances.

I have highlighted the . Be careful, new ones pop up all the time. I have written about if you’ve been affected by the coronavirus. I have also counseled on ways you might financially right yourself if you have been .

This month, we want to look at various ways you might shore up your finances in today's uncertain world.
If you are single, take control of your situation. If you are a couple, sit down with your partner and craft a plan. It's important that both of you are on the same page. These are guidelines, and we are here to assist if you have any questions.

1. **Now is the time to build up an emergency reserve of at least three to six months.** You don't know what the future may bring and savings will help you weather a job loss, if it were to occur.

If you have been laid off, the federal government is providing an additional $600/week in unemployment benefits.

Some are earning more unemployed than when they were working! If you are in this situation, use the extra cash to build up your savings.

1. **Start saving**. If you met the income criteria, you received a stimulus check of up to $1,200 from the federal government ($2,400 if you are a couple). Now it's time to eliminate unnecessary expenditures. Lockdowns have made the task easier.

Yes, I understand that forced closures have had devastating economic impact. However, outlays on gasoline, ride sharing, car repairs, entertainment, eating out, and much more have been curtailed. Build up your rainy day fund.

1. **Do you have a mortgage**? If so, record low rates could save you hundreds of dollars every month. Review the numbers and determine if refinancing makes sense.

1. **Are you making monthly payments on federally backed student loans**? Through September 30, 2020, .

No action is required by you. If someone contacts you and can stop payments provided you pay a fee, hang up the phone or ignore the email. This is a scam.

Your deferred payments will allow you the opportunity to build up your savings. Or, if your finances are solid, any monthly payments will go entirely towards principal, enabling you to pay off your loans sooner than anticipated.

1. **Consider college refunds and your 529 plan**. With lockdowns, dorm closures, cancelled meal plans, and online learning, you may be due a refund from your college.

Normally, you have 60 days from the date of the refund to redeposit the funds without liability. Today, the period has been extended.

If the 60-day period ends on or after April 1, 2020 and before July 15, 2020, the redeposit can be made any time before July 15, 2020 or 60 days after the refund date, whichever is longer.

1. **Do you need financial assistance?** Contrary to popular opinion, banks don't want to get tough with borrowers. A bank's business model is based on repayment of loans, not foreclosures. In today's environment, many banks are willing to work with you, but you must reach out to them. The same holds true for utilities and other monthly services.

1. **Mortgage forbearance programs may be available for those who have lost jobs due to the pandemic.** Be sure terms being offered are reasonable. Again, reach out for assistance. Simply stopping payments will quickly get you into trouble.

Next steps

Please recognize that you are not in this alone. We are here to assist you as you formulate a plan.
The steps above offer a broad overview. Taking action is critical. It's half the battle. Be proactive, not reactive. You may find you are in a much better position than you realized, which will relieve an enormous amount of stress.
I hope you've found this review to be helpful and educational.

If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.

Thanks and Regards,

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