

Monthly Economic Update

May 2020

U.S. Markets

Stocks rebounded sharply in April, fueled by a flattening pandemic curve and positive results from a clinical trial investigating a treatment for COVID-19.

The Dow Jones Industrial Average, which dropped 14% in March, jumped 11.08%. The Standard & Poor's 500 Index rose 12.68%, and the NASDAQ Composite surged 15.45%.¹

Slowdown in Infections

Just as it appeared that April might be a repeat of March, stocks turned higher with signs of a slowdown in COVID-19 infections, especially in Italy and New York state. Though jobless claims were breathtakingly high, they were expected, allowing investors to focus on positive developments. A more stable bond market also helped support the rally.

The stock market struggled to move higher, as a weak start to earnings season and troubling economic data created some underlying crosscurrents.

Gains Despite Stalled Momentum

Momentum stalled as oil prices drifted lower, but accelerated again on the news of positive results from a clinical trial investigating a treatment for COVID-19.

Stocks continue to climb higher as more states begin the initial phase of reopening their economies and others have announced target reopening dates.

Sector Scorecard

All industry sectors moved higher in April, with increases in Communication Services (+18.10%), Consumer Discretionary (+19.66%), Consumer Staples (+10.19%), Energy (+37.17%), Financials (+11.28%), Health Care (+17.88%), Industrials (+11.24%), Materials (+20.81%),

Real Estate (+9.45%), Technology (+16.83%), and Utilities (+5.26%).²

What Investors May Be Talking About in May

The national dialogue over the COVID-19 outbreak has shifted toward restarting the economy, with state and national leaders devoting more attention to plans of loosening the shelter-in-place and social-distancing guidelines.

There are two key aspects that investors may be watching as they try to figure out the pace of the recovery.

State by State

The first factor is the nature of the reopening. The White House plan for restarting the economy involves a three-step process, but leaves the decision-making to the governors of the states. The reopening timing and process may vary depending on health experts' assessments of the risk profile of each state as well as voter sentiment to return to their usual activities.

The second factor is the public's confidence in resuming their pre-quarantine routines. How soon will people be showing up to work, going out to eat, and traveling? That is a clear unknown at this time.

World Markets

Rising global optimism worldwide propelled stocks upward, lifting the MSCI-EAFE Index to a 6.75% gain. European markets were broadly higher, with gains in France (+4.01%), Germany (+9.32%), and the U.K (+7.97%). Pacific Rim stocks saw similar gains, as Australia jumped 8.78%, Japan added 6.75%, and Hong Kong rose 4.41%.^{3,4,5}

Indicators

Gross Domestic Product: The U.S. economy shrank at a 4.8% annualized rate during the first quarter, which was the biggest drop in GDP since the fourth quarter of 2008.⁶

Employment: The unemployment rate jumped to 4.4%, up from the previous month's 3.5% rate, as employers shed 701,000 jobs in March. Keep in mind that this month's jobs report did not fully reflect the jobless claims filed during the last two weeks of March.⁷

Retail Sales: Spending by American consumers dropped in March, with retail sales falling 8.7%. It was the deepest decline since the tracking of retail sales began in 1992.⁸

Industrial Production: Industrial output fell 5.4%, the sharpest decline since 1946. Motor vehicles and parts were hit particularly hard, sliding 28%.⁹

Housing: Housing starts were affected by the downturn, falling by 22.3%. Existing home sales declined by 8.5% as buyer-and-seller activity slowed New home sales tumbled 15.4% in March, representing the biggest drop since July 2013.^{10,11,12}

Consumer Price Index: The cost of consumer goods fell by 0.4% in March, led by declines in energy (-5.8%), apparel (-2.0%), and transportation services (-1.9%). Excluding food and energy, the CPI fell by 0.1%.¹³

Durable Goods Orders: Orders of long-lasting goods shrank 14.4%, weighed down by orders for aircraft and their corresponding parts.¹⁴

The Fed

Minutes from the Federal Reserve's two unscheduled meetings in March were released during the month.

The meetings resulted in a 50 basis point rate cut in the federal funds rate, followed by another 100 basis point cut. The meeting notes reflected how alarmed Fed officials were about the economic situation and the disruptions in the financial markets.¹⁵

Following the conclusion of the April 28th-29th meeting of the Federal Open Market Committee, Fed Chair Jerome Powell did not announce any new policies, but did

emphasize the Fed's commitment to using all available tools to support economic recovery.¹⁶

MARKET INDEX	Y-T-D CHANGE	April 2020
DJIA	-14.69%	11.08%
NASDAQ	-0.93%	15.45%
S&P 500	-9.85%	12.68%

BOND YIELD	Y-T-D	March 2020
10-YR TREASURY	-1.22%	0.70%

Sources: wsj.com, bigcharts.com, treasury.gov - 4/30/20

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury real yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

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Australian Securities 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 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 FTSE TWSE Taiwan 50 Index is a capitalization-weighted index of stocks comprises 50 companies listed on the Taiwan Stock Exchange developed by Taiwan Stock Exchange in collaboration with FTSE. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. 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 future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

CITATIONS:

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- 3 - MSCI.com, April 30, 2020
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- 9 - MarketWatch.com, April 15, 2020
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