MARKET MATTERS

WEEKLY INVESTOR UPDATE June 17, 2020

Executive Summary

- Daily COVID-19 infections have surged in some states lifting restrictions and declined in some of the hardest hit-states. Beijing also experienced an outbreak.
- Governments hope that a better understanding of the virus means the spread can be managed and further economic shutdowns avoided.
- U.S. retail sales were surprisingly strong in May, reigniting hopes for a V-shaped recovery. However, economists warned of a deeper contraction if a second wave is not avoided.
- U.S. equities whiplashed between fears of a second wave, record retail sales, and Fed comments.
- Volatility is likely to continue as markets attempt to interpret data as it is released.

COVID-19 Update: Resurgence

Over two million people have tested positive for coronavirus in the U.S. Some states that have relaxed social distancing over the past two weeks (including Arizona, Oregon, Oklahoma, Florida, South Carolina, Arkansas, and Nevada) have seen an increase of over 100% in new daily cases. However, three states—New York, Connecticut, and New Jersey—which together account for 30% of the nation's COVID-19 positive cases, have seen a decrease in new daily cases.[1]

The good news is that further economic shutdowns may not be necessary in the U.S. as the spread of the virus is better understood. The virus seems to primarily spread through close respiratory droplet contact between people for extended periods. Governments may therefore extend requirements for measures such as social distancing, limited capacities, plexiglass barriers, facemasks, good ventilation systems, open windows, and prohibiting large gatherings, especially indoors, which can lead to "superspreading" events. Increased testing and contact tracing are also key.[2] More drastic measures could be necessary if there is a shortage of hospital beds, particularly intensive care unit (ICU) beds, to treat the most severe cases. Generally, this scenario does not appear to be the case in the U.S.[3]

Worldwide, the total confirmed cases top 8 million and daily cases continue to trend upward, led by Brazil, Mexico, and India. Deaths per 100,000 have been highest in the U.K., Italy, and the

[1] "Tracking The Pandemic: Are Coronavirus Cases Rising Or Falling In Your State?" NPR. June 16, 2020.
[2] "How Exactly Do You Catch Covid-19? There Is a Growing Consensus," *Wall Street Journal*. June 16, 2020.
[3] "Record spike in new coronavirus cases reported in six U.S. states as reopening accelerates," *Reuters*. June 16, 2020.

U.S.[4] China, which seemed to be on the mend, implemented restrictions in Beijing after a COVID-19 outbreak linked to a wholesale produce market.[5]

A British clinical trial saw positive results with a commonly available steroid, Dexamethasone, where patients who were severely ill saw a 35% reduction of deaths as compared to patients who did not receive the steroid. The drug did not appear to have an impact on patients who were not on a ventilator or receiving oxygen.[6]

Economic Update: Stabilization

Economic developments over the past week were dominated by comments and actions by the Federal Reserve (the "Fed"). The Federal Open Market Committee (FOMC) indicated that the federal funds rate was likely to remain at close to 0% until at least 2022 and restated its commitment to continue and expand asset purchases. In a discussion in front of the Senate Banking Panel, Fed Chairman Powell commented that while second quarter GDP may have been the most severe decline on record, he is starting to see some indications of stabilization. Meanwhile, on the fiscal side, reports surfaced of a potential $1 trillion stimulus bill being worked on by the White House, which may include significant infrastructure spending. Still, many investors remained cautious as any stimulus package would need to be approved by Congress.

The economic data over the last week showed signs of improvement. While the employment picture remains relatively poor, the number of weekly initial jobless claims declined. Meanwhile, relative bright spots were found in May retail sales, which rose by 17.7%, and June consumer sentiment, which rose in May. Homebuilder confidence also showed strong gains. Lower interest rates continued to spur refinancing as shown by the MBA Mortgage Applications Index, which saw an 11% increase in home refinancing activity. Inflation remains subdued.

The Organisation for Economic Co-operation and Development (OECD) – an intergovernmental economic organization founded to stimulate economic progress and world trade – issued its latest outlook on the global economy, predicting a 6% decline in global economic output this year, assuming a second wave of COVID-19 cases is avoided. In the U.S, the OECD predicted a 7.3% contraction in annual GDP without a second wave and an 8.5% contraction if a second wave of COVID-19 cases were to occur. The final significant piece of economic news should not surprise anyone: the U.S. government deficit climbed to over $1.88 trillion year-to-date versus $984 billion in the entire 2019 fiscal year ended in September. Overall, the economic data of the past few weeks point to stabilization in the economy after a large drop off in the second half of March and April.

[4] "COVID-19 Dashboard," Johns Hopkins University & Medicine. Visited June 16, 2020.
[5] "Sudden, new coronavirus cluster in Beijing points to the growth challenges ahead for China," CNBC. June 16, 2020.
[6] "'Remarkably cheap' steroid called dexamethasone can improve COVID-19 survival, researchers say," *USA Today*. June 16, 2020.

Market Index Trailing Total Returns				
as of 6/16/2020	**MTD**	**YTD**	**1 Year**	**3 Year**
S&P 500	2.74%	-2.37%	10.40%	10.87%
Russell 2000	4.25%	-12.38%	-3.18%	2.48%
MSCI EAFE USD	4.56%	-10.35%	-1.30%	1.04%
MSCI Emerging Markets USD	6.55%	-10.45%	-0.05%	2.01%
Bloomberg Barclays U.S. Agg Bond	0.24%	5.72%	9.26%	5.04%
Bloomberg Barc U.S. Corp High Yield	2.91%	-1.95%	2.96%	3.96%
Bloomberg Barc Global Agg Bond USD	1.13%	0.73%	2.57%	2.52%

Periods longer than a year are annualized. Returns include dividends or interest. Source: Morningstar.

Market Update: To V or not V

Last Thursday, June 11, saw one of the worst trading days in U.S. equities since March 2020 due to cautionary Fed comments and a surge of COVID-19 cases in certain states, which spurred fears of a second wave of infections and further economic shutdowns.[7] However, U.S. equities moved sharply higher on Monday and Tuesday as a result of record retail sales in May and positive results from a British clinic steroid trial to treat coronavirus, which could support a V-shaped recovery. As has been the trend since March, equities are likely to remain volatile as markets try to interpret and assess the reliability of data as it is released.

We are here to support you and navigate these times of uncertainty together. Knowledge is power, and we're committed to equipping you and your financial professional with the tools and information you need to weather this storm. We are continuing to watch market developments and are here to assist you with evaluating and understanding these economic changes. Please contact your financial professional to discuss your portfolio or should you have any questions/concerns.

[7] "Dow plummets 1,862 points, its worst day since March, on cautionary Fed messages and 2nd-wave coronavirus fear," *Business Insider*. June 11, 2020.

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20 E. Thomas Road, Suite 2000 • Phoenix, AZ 85012 • 866-481-0379 • **advisorgroup.com**

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