



MARKET MATTERS

WEEKLY INVESTOR UPDATE

June 10, 2020

Executive Summary

- New daily COVID-19 cases are declining in the U.S., but still increasing in some states.
- Cases are also increasing worldwide, led by Brazil, although New Zealand has eliminated the virus.
- The U.S. officially entered a recession in February but surprisingly unemployment declined in May.
- The recovery may be uneven as unemployment rose for African Americans and Asian Americans.
- The S&P 500 Index is close to its year-end level but may be overvalued.
- So far in June, value has outperformed growth and small-cap has outperformed large-cap.

COVID-19 Update: Encouraging Signs of Hope

New York City, which has been the epicenter of the coronavirus pandemic in the United States, announced that parts of its economy reopened on Monday, June 8. In Phase 1 of the re-opening, businesses in retail, construction, and manufacturing can restart their operations after close to three months of lockdowns due to COVID-19.¹

The number of new daily coronavirus cases has been trending downward in the U.S., but the virus continues to circulate as we approach 2 million confirmed cases.² Although the national trend appears to be improving, there are 21 states that have seen increasing cases reported in the past 14 days. It remains unclear if that is due in part to increasing testing capacity,³ large protest gatherings, or the easing of restrictions.

Worldwide, new daily cases have trended up, with well over 7 million confirmed cases and Brazil leading the upward trend. A huge sign of hope was reported in New Zealand, which claimed to have “eliminated” the spread of the coronavirus through a mixture of very strict and early quarantine, travel restrictions, and rigorous testing.⁴ New Zealand has had no new cases of COVID-19 for close to three weeks and has removed almost all restrictions as of Tuesday June 9. The country has plans to carry out rapid contact tracing once new cases are identified.

¹ “After Lockdown And Unrest, New York City Reopening,” NPR. June 8, 2020.

² “COVID-19 Dashboard,” Johns Hopkins University & Medicine coronavirus Resource Center. Visited June 9, 2020.

³ “Coronavirus Infections Are On The Rise In 21 U.S. States, With Cases Spiking In California, Arizona And North Carolina,” *Forbes*. June 8, 2020.

⁴ “How New Zealand ‘Eliminated’ Coronavirus,” *Forbes*. June 8, 2020.

Economic Update: It's Official

It's official. According to the National Bureau of Economic Research (NBER), the U.S. entered a recession in February, ending the longest economic expansion in the country's history. GDP dropped 5% (annualized) in the first quarter of the year and is expected to see a decline of over 20% (annualized) in the second quarter. The unemployment rate increased from 3.5% in February to 14.7% in April.⁵

NBER's announcement was not surprising, but the Bureau of Labor Statistics' (BLS) announcement certainly was. After forecasters predicted that the unemployment rate would increase from 14.7% in April to about 20% in May, the BLS announced that the rate actually dropped to 13.3%, with 2.5 million jobs created as businesses reopened. There is a caveat, though: As noted by the BLS, people who are temporarily unemployed (meaning they expect to be called back but are not currently working), are sometimes classified as employed when they should be classified as unemployed.⁶ People expecting to be called back may consider themselves employed and respond to the unemployment survey as such. With this correction, the unemployment rate would have been 5.4% in March, 19.7% in April, and 16.3% in May, which does not change the trend.⁷ The BLS is working to correct the issue, which is simply due to both the way survey questions are answered – particularly in a period of uncertainty in the middle of a pandemic – and the BLS' policy of not retroactively changing responses.⁸

The decrease in unemployment could offer support for a quick V-shaped economic recovery, although we caution that it is still too early to see the full impact of the pandemic. Moreover, the recovery may be uneven, as the unemployment rate among African Americans and Asian Americans did increase in May.⁹

Market Index Trailing Total Returns				
as of 6/9/2020	MTD	YTD	1 Year	3 Year
S&P 500	5.40%	0.16%	13.85%	11.86%
Russell 2000	8.13%	-9.11%	1.01%	3.39%
MSCI EAFE USD	7.42%	-7.90%	1.13%	1.96%
MSCI Emerging Markets USD	8.63%	-8.71%	2.80%	2.18%
Bloomberg Barclays U.S. Agg Bond	-0.10%	5.37%	8.92%	5.02%
Bloomberg Barc U.S. Corp High Yield	3.13%	-1.75%	3.55%	4.06%
Bloomberg Barc Global Agg Bond USD	1.31%	0.90%	2.08%	2.67%

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

⁵ "U.S. economy entered recession in February, business cycle arbiter says," *Reuters*. June 8, 2020.

⁶ "Frequently asked questions: The impact of the coronavirus (COVID-19) pandemic on The Employment Situation for May 2020," U.S. Bureau of Labor Statistics (BLS). June 5, 2020.

⁷ "A 'misclassification error' made the May unemployment rate look better than it is. Here's what happened." *The Washington Post*. June 6, 2020.

⁸ "No, the Jobs Report Wasn't Rigged. Here's What Happened." *The New York Times*. June 8, 2020.

⁹ "Surprise U.S. unemployment rate drop leaves out blacks, Asians," *Reuters*. June 5, 2020.

Market Update: What Pandemic?

A surprising decrease in the unemployment rate announced on Friday sent U.S. equities higher. The returns since late March have been so strong that the S&P 500 Index, including dividends, is up 0.2% for the year as of June 9. The Nasdaq Composite Index is up an astonishing 11.4%, including dividends, for the year. There was a slight pullback on June 9 as the S&P 500 declined 0.8%, possibly as investors took some gains off the table. U.S. equities continue to be overvalued based on forward P/E ratios.

There were some interesting rotations as well. Value stocks, which have materially underperformed growth stocks for the last several years, have made a slight comeback with the Russell 1000 Value Index, including dividends, returning 7.5% month-to-date compared to a total return of 4.1% for the Russell 1000 Growth Index. Similarly, small-cap stocks, which have materially underperformed large-cap stocks for the last several years, have made a slight comeback with the Russell 2000 Index, including dividends, returning 8.1% month-to-date compared to a total return of 5.6% for the Russell 1000 Index.

In other news, Treasury rates have been moving up as signs of economic improvement are observed, money moves to riskier assets, and the Fed reduces its daily purchase in the bond market.¹⁰ The U.S. dollar is in its longest decline since 2006.¹¹

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.

¹⁰ "Here's why a disorderly selloff is convulsing the once peaceful U.S. bond market," *MarketWatch*. June 5, 2020.

¹¹ "U.S. Stocks Halt Comeback Rally While Bonds Jump: Markets Wrap," *Bloomberg*. June 8, 2020.

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