



MARKET MATTERS

WEEKLY INVESTOR UPDATE

May 20, 2020

Executive Summary

- Moderna led equities up on Monday after releasing positive early COVID-19 vaccine test results, then down on Tuesday after some skepticism. Such reactions are expected given such preliminary results.
- More states are lifting restrictions while maintaining social distancing guidelines.
- Economic indicators continue to point to bad second quarter, but we could be reaching a bottom.
- With the blend of positive and negative news, expect volatility to continue.

COVID-19 Update: Guarded Hopes of a Vaccine

As the count of worldwide coronavirus infections continues to increase to close to 5 million confirmed cases,¹ some potential good news was reported on Monday when pharmaceutical firm Moderna, Inc. announced that initial COVID-19 vaccine results induced immune responses (antibodies) in volunteers, raising hopes of a vaccine or medical treatment to prevent or slow the spread of the virus.² While some hope for a vaccine by year-end, many experts caution that a more realistic time frame would be 12-18-months, which in historical terms would still be considered extraordinarily fast.³ Additionally, Moderna's results were questioned on Tuesday.⁴ Due to the urgent need for a treatment, COVID-19 studies, including Moderna's, tend to be released early without complete information and prior to being peer-reviewed, so concurrent excitement and skepticism is to be expected.

As more states lift restrictions that were put in place to help curb the spread of the coronavirus, many businesses are reopening under limitations and social distancing guidelines, creating some sense of normality. Many Americans are venturing out from self-isolation and returning cautiously back into businesses.⁵ Some governors, even in the hardest-hit states, are now welcoming major sports teams back to start playing their seasons, albeit without fans in the stands.⁶

¹ "COVID-19 Dashboard," John Hopkins University & Medicine Coronavirus Resource Center. Visited May 18, 2020.

² "Moderna Says Initial Covid-19 Vaccine Results Are Positive," *Wall Street Journal*. May 18, 2020.

³ "Vaccine Could Potentially Be Available Later This Year, Coalition Says," *Bloomberg*. April 27, 2020.

⁴ "Scientists Raise Questions About Moderna Vaccine In Market-Shaking Report," *Forbes*. May 19, 2020.

⁵ "Social Distancing Eases as Some States Lift Restrictions," *Gallup*. May 15, 2020.

⁶ "Sports teams should play: NY governor," *Reuters*. May 18, 2020.

The economic pain caused by COVID-19 remains a top issue on the minds of most Americans. As unemployment hits new heights each passing week, a new bill known as the HEROES Act calls for additional stimulus payments to Americans making under a certain amount of yearly income. Additional benefits of the proposed bill that was passed by the House of Representatives would look to extend unemployment benefits and provide aid to states and local governments. The bill is still in the early stages, so if it survives and becomes law, there are likely to be significant changes as it moves through the legislative process.⁷

Economic Update: Signs of Nearing the Bottom

Over the past week, readings for economic indicators continued to show that the U.S. economy was likely in a deep recession during the month of April. Retail sales in April fell by their largest percentage on record. The declines in retail sales were widespread and pronounced due to the majority of the country having shelter-in-place orders during the month of April. The largest declines were in clothing stores and furniture stores, while a bright spot was found in online retailers. Interestingly, grocery store sales fell in April as stockpiling of goods began to decline, although sales still remained higher than a year earlier.

In the housing market, April housing starts fell by a record 30% on a month-over-month basis, although homebuilders felt a little more optimistic than they did in March. Meanwhile, the number of individuals seeking unemployment claims remained elevated at 2.98 million, although the number of claims has slowly fallen each week since reaching a peak of nearly seven million claims six weeks ago.

Members of the Federal Reserve (the “Fed”) actively discussed their views on the economy and monetary policy last week. In a *60 Minutes* interview, Fed Chairman Jerome Powell said that the Fed has plenty of ammunition to help support the economy and that there is “no limit to what we can do with these lending programs.” At the same time, Mr. Powell warned that the economy will not be able to fully recover until the virus is controlled.⁸ In a separate speech, Mr. Powell commented that the Fed is not considering negative interest rates. He also provided some optimism that unemployment is likely to peak in the next month, although it will likely remain elevated for a significant period of time. Boston Fed Chief Eric Rosengren also provided commentary, saying that “now is the time for both monetary and fiscal policy to act boldly to limit economic pain from the pandemic.” Mr. Rosengren said that he anticipates

⁷ “5 HEROES Act Provisions with a Good Chance of Becoming Law,” *Kiplinger*. May 16, 2020.

⁸ “Fed chair: ‘There’s no limit’ to coronavirus stimulus response,” *Axios*. May 18, 2020.

unemployment will peak around 20% and may remain in double digits at year-end. He also said he does not anticipate a “V-shaped” recovery for the U.S. economy.⁹

Updated GDP projections continue to point to a severe recession in the second quarter, but also a recovery in the third quarter even if it does not get us to pre-pandemic levels by year-end.

Market Index Trailing Total Returns				
as of 5/19/2020	MTD	YTD	1 Year	3 Year
S&P 500	0.51%	-8.83%	4.26%	9.20%
Russell 2000	-0.13%	-21.19%	-13.56%	-0.10%
MSCI EAFE USD	0.04%	-17.81%	-9.04%	-1.60%
MSCI Emerging Markets USD	0.11%	-16.51%	-4.67%	-0.03%
Barclays U.S. Aggregate Bond	-0.19%	4.78%	10.00%	4.95%
Barclays High Yield Corp	1.30%	-7.57%	-2.32%	2.15%
Barclays Global Agg Bond USD	-0.97%	-1.66%	2.21%	1.94%

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

Market Update: Still Following the Daily News

Markets continue to react to daily developments related to a potential economic recovery and the potential development of a vaccine for COVID-19. Last week, U.S. equities ended on a down note as Fed Chair Powell warned about “lasting damage” to the economy, Congress disagreed on a stimulus package, government officials threatened a resumption in the U.S.-China trade war, and economic indicators had poor readings.¹⁰ The S&P 500 rose 3.2% on Monday, May 18 on news of Moderna’s positive early test results, but dropped 1.1% the following day on skepticism of Moderna’s test results. With the blend of positive and negative news, expect volatility to continue.

In this time of great uncertainty, it is important that you are invested in a diversified portfolio. At the same time, those with intermediate and long-term investment horizons may find very attractive opportunities that have presented themselves in financial markets.

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.

⁹ “The Main Street Lending Program and Other Federal Reserve Actions,” Federal Reserve Bank of Boston. May 19, 2020.

¹⁰ “Global Markets Weekly Update,” T. Rowe Price. May 15, 2020.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss. In general, the bond market is volatile; bond prices rise when interest rates fall and vice versa. This effect is usually pronounced for longer-term securities. Any fixed-income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Vehicles that invest in lower-rated debt securities (commonly referred to as junk bonds or high-yield bonds) involve additional risks because of the lower credit quality of the securities in the portfolio. International investing involves special risks not present with U.S. investments due to factors such as increased volatility, currency fluctuation, and differences in auditing and other financial standards. These risks can be accentuated in emerging markets.

The statements provided herein are based solely on the opinions of the Advisor Group Investment Research Team and are being provided for general information purposes only. Neither the information nor any opinion expressed constitutes an offer or a solicitation to buy or sell any securities or other financial instruments. Any opinions provided herein should not be relied upon for investment decisions and may differ from those of other departments or divisions of Advisor Group or its affiliates.

Certain information may be based on information received from sources the Advisor Group Investment Research Team considers reliable; however, the accuracy and completeness of such information cannot be guaranteed. Certain statements contained herein may constitute “projections,” “forecasts” and other “forward-looking statements” which do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein reflect the judgment of the Advisor Group Investment Research Team only as of the date of this document and are subject to change without notice. Advisor Group has no obligation to provide updates or changes to these opinions, projections, forecasts and forward-looking statements. Advisor Group is not soliciting or recommending any action based on any information in this document.

Securities May Lose Value | Not FDIC/NCUA Insured | Not Bank or Credit Union Guaranteed

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

Securities and investment advisory services are offered through Advisor Group, Inc. subsidiaries FSC Securities Corporation, Investacorp, Inc., KMS Financial Services, Inc., Royal Alliance Associates, Inc., SagePoint Financial, Inc., Securities America, Inc., Securities Service Network, LLC, Triad Advisors, LLC, and Woodbury Financial Services, Inc., broker-dealers, registered investment advisors and members of FINRA and SIPC. Advisor Group, Inc. is a holding company. Advisor Group, Inc. is separately owned and other entities and/or marketing names, products or services referenced here are independent of Advisor Group, Inc.

20999047