



MARKET MATTERS

WEEKLY INVESTOR UPDATE

April 14, 2020

Executive Summary

- As the curve begins to flatten in the U.S., there are talks of reopening the economy.
- Testing is key to reopening the economy, but the U.S. is far short of achieving scale.
- Trump administration believes enough testing may be available by May to start the process.
- Consensus is for a deep recession into the second quarter, followed by a sharp recovery.
- A reopening will likely be gradual with significant restrictions on individuals and businesses.
- Economic indicators will continue to worsen, but longer term outlook remains positive.
- The Fed increased monetary stimulus. More fiscal stimulus in the works.
- Markets are currently optimistic, but expect additional bouts of volatility as news develops.

COVID-19 Update: Talks of Reopening, Testing Key

As the curve begins to flatten in the U.S., there are talks of reopening the economy. Two coalitions of governors of western and northeastern states plan to coordinate efforts and President Donald Trump has been advocating for quickly reopening businesses.¹ Testing, however, is key to avoiding a second wave of infections and the U.S. has so far struggled to implement testing at anywhere close to the required scale.² The U.S. is currently testing 100,000 people per day when millions need to be tested daily. Admiral Brett Giroir, Assistant Secretary for Health in the Trump administration, has indicated that testing capacity could be in the “ballpark” to accommodate reopening measures as soon as May.³

A reopening of the economy will likely be gradual with significant restrictions including continued social distancing, required protective measures when in public, limited hours and capacity at retail locations, staggered shifts, continued remote working, increased protective measures for workers, and of course extensive monitoring and testing.⁴

Economic Update: More Stimulus

As we have mentioned before, economic indicators will continue to worsen, at least in the short term. Last week, 6.6 million people in the U.S. filed for unemployment insurance, bringing the total to about 17 million since mid-March, or about 10% of the U.S. workforce. University of

¹ “States Move to Coordinate on Reopening Plans,” *Wall Street Journal*. April 13, 2020.

² “The case for ending the Covid-19 pandemic with mass testing,” *Vox*. April 13, 2020.

³ “Trump’s Ambition to Reopen U.S. Hinges on Elusive Testing,” *Bloomberg*. April 14, 2020.

⁴ “The Coronavirus Economic Reopening Will Be Fragile, Partial and Slow,” *Wall Street Journal*. April 13, 2020.

Michigan's consumer sentiment index had a record drop in its latest monthly reading. The IMF now predicts a decline in U.S. annual GDP of 3.0%, compared to the increase of 3.3% it forecasted in January. That compares to a 0.1% increase in GDP in 2009.⁵

In positive news, the IMF also projects a strong recovery in 2021 and we are seeing additional monetary and fiscal stimulus. The U.S. Federal Reserve announced an additional \$2.3 trillion financing package for businesses and municipalities, and an expansion of its asset purchasing program to include high-yield bonds and high-yield bond ETFs. The Trump administration and Congress continue to work on a second \$1 trillion fiscal support package that could include direct payments to individuals, extended unemployment insurance, and new small business loans.

Market Update: Markets Focus on the Positives

Global equities, especially U.S. equities, focused on the flattening curves and increased stimulus, seeing strong returns so far in April. U.S. Treasury yields, high-yield spreads, and the VIX index appear to be stabilizing, all indicating an easing of fear and a greater appetite for risk. On April 12, OPEC+ and the U.S. reached a deal to cut oil production in an effort to increase oil prices and revenues and save jobs, although oil prices had not budged much as of April 14.

While we remain optimistic about long-term economic growth, we caution against expecting the recent equity rally to continue. It is common in economic crises to see volatility spike whenever economic progress falters or, in this case, when containment of the pandemic falters. Particularly, there could be a second wave of infections as the economy reopens or in the fall, and there will likely be cultural shifts that will impact businesses for several years.

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.

⁵ "IMF Sees Great Lockdown Recession as Worst Since Depression," *Bloomberg*. April 14, 2020.

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