LAKEVIEW CAPITAL PARTNERS – June 1, 2020

LAST WEEK IN REVIEW

Stocks recorded a second consecutive week of solid positive returns, with slower-growing value stocks again gaining ground against more highly valued growth shares. At its peak Thursday, the S&P 500 Index moved within 10% of its all-time high, pulling it out of correction territory, according to some definitions. Meanwhile, the technology-heavy Nasdaq Composite Index climbed within almost 3% of its February peak before falling back. Utility stocks outperformed, while energy stocks moved lower on reports of an increase in domestic crude inventories. Markets were closed last Monday in observance of Memorial Day.

Optimism about the gradual reopening of the global economy seemed to be the primary driver of sentiment. As restrictions on public gatherings continued to be lifted and retail establishments and restaurants received permission to serve customers in limited numbers, the daily number of new confirmed coronavirus cases rose moderately in some states but perhaps not as much as feared. Traders I spoke with noted that investors also seemed encouraged by news of human trials of a possible vaccine for COVID-19 under development by Novavax.

US - MARKETS & ECONOMY

The week's economic reports also appeared to be less bleak than many had anticipated. April durable goods orders outside of the volatile transportation segment fell 7.4%, roughly half as much as anticipated. Another 2.12 million Americans filed for unemployment benefits over the previous week, which was slightly above expectations, but investors seemed reassured that the number continued to trend downward. Continuing claims for unemployment benefits also fell unexpectedly by roughly 4 million. Housing data were mixed. Sales of new homes rose at a robust pace in April, but pending home sales fell by nearly 22%, more than expected.

China's passage of legislation restricting the autonomy of Hong Kong resulted in sharp criticism from US officials. It appeared to drain some of the positive sentiment, particularly late in the week. Shares in Facebook and Twitter also came under pressure after President Donald Trump threatened to tighten regulations on social media platforms following the latter's posting of a fact-check notice regarding one of his tweets. On Thursday, the president signed an executive order accusing the platforms of engaging in "selective censorship" and calling on the Federal Communications Commission to investigate whether they were operating in "good faith."

US STOCKS

Index	Friday's Close Week Ending 5/29/2020	Week's Change Week Ending 5/29/2020	% Change YTD Week Ending 5/29/2020
DJIA	25,383.11	917.95	-11.06%
S&P 500	3044.31	88.86	-5.77%
Nasdaq Composite	9489.87	165.28	5.76%
S&P MidCap 400	1765.06	71.90	-14.44%
Russell 2000	1395.00	42.62	-16.39%

SOURCE: BLOOMBERG. THIS CHART IS FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. ***PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

US YIELDS & BONDS

Longer-term bond yields ended the week slightly lower as U.S.-China tensions counterbalanced optimism about economies reopening. (Bond prices and yields move in opposite directions.)

The broad municipal market extended its May rally, generating positive returns and outperforming Treasuries through most of the week. According to Lipper, muni bond mutual funds experienced inflows of roughly USD 1.8 billion for the seven days ended May 20, marking the largest weekly inflow figure for the asset class since late February. Due to the holiday-shortened week, however, new issuance and secondary trading activity in the muni market were relatively muted.

The investment-grade corporate bond market saw steady primary market activity throughout the week, and the volume of deals exceeded expectations. Traders reported that the new issues were generally met with robust demand, and credit spreads narrowed across most market segments.

Another week of strong inflows to high yield funds contributed to positive sentiment and helped the market absorb a massive slate of new deals. Fallen angels—issuers that have recently lost investment-grade status—continued to perform well amid strong interest. In credit-specific news, car rental company Hertz Global filed for Chapter 11 bankruptcy protection late the previous Friday due to travel restrictions causing a collapse in demand for its vehicles. The Chapter 11 filing allows Hertz to continue operations as it works to pay creditors and turn its business around.

YIELD CHECK - US TREASURY MARKETS

3 Mth: 0.12%
2-yr: 0.16%
5-yr: 0.30%
10-yr: 0.65%
30-yr: 1.41%

SOURCE: BLOOMBERG. YIELDS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. YIELD CHANGES ARE OF ONE WEEK. ***PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.***

INTERESTING NEWS OVERSEAS

Stocks in Europe posted substantial gains, as optimism fueled by reopening economies and proposals for more European stimulus offset fears of a second wave of coronavirus infections and increased U.S.-China tensions. The pan-European STOXX Europe 600 Index ended the week 3.0% higher. Germany's DAX Index climbed 5.01%, the CAC 40 in France advanced 6.02%, and Italy's FTSE MIB Index gained 4.90%. The UK's FTSE 100 Index added 1.32%. Peripheral Eurozone bond yields, meanwhile, fell markedly on the week. Comments from European Central Bank Vice President Francois Villeroy de Galhau sparked fresh hopes of further stimulus. They helped to send the Italian 10-year bond yield from around 1.6% on Monday to 1.44% on Friday. Optimism over a proposed European recovery fund also suppressed yields.

ECB President Christine Lagarde warned that the eurozone economy would shrink by 8% to 12% this year, in line with the more severe scenario outlined by the ECB last month, because of the "sudden stop of activity" caused by the coronavirus.

The ECB is widely expected to increase its asset purchase programs for this year at its policy meeting on June 4. Executive Board member Isabel Schnabel hinted as much in an interview with the *Financial Times* when she said that "if we judge that further stimulus is needed, then the ECB will be ready to expand any of its tools." Her comments came after Villeroy de Galhau told an online conference that low inflation provides room to act rapidly and that, in line with the ECB's mandate, policymakers will probably need to go even further.

Japanese stocks surged during the week. The Nikkei 225 Stock Average advanced 1,490 points (7.3%) and closed at 21,877.89. Despite the substantial advance, the Japanese stock market barometer is still 7.5% lower for the year-to-date period. The large-cap TOPIX Index and the TOPIX Small Index—broader measures of Japanese stock market performance—also recorded strong weekly gains. Still, they, too, are underwater -9% and -11%, respectively, for the year to date. The yen was little changed versus the US dollar for the week.

Prime Minister Shinzo Abe announced in a Monday afternoon press conference—based on the advice of the government's panel of experts on coronavirus issues—that he was lifting the state of emergency for the remaining five prefectures that were still on lockdown orders. Investors turned bullish on the news, and stocks staged an impressive rally. Lifting the restrictions in the greater Tokyo region, which generates about one-third of Japan's gross domestic product (GDP), is viewed as vital to Japan's economic recovery. Abe's announcement comes a week earlier than expected, reflecting an acceptable decline in new cases in the remaining lockdown areas and because medical care, monitoring, and testing capacity had improved. The Japanese public is still being asked to remain cautious about spreading the coronavirus, which has infected upwards of 16,000 people in Japan, resulting in more than 800 deaths.

Investors in Chinese equity markets were in a cautious mood ahead of President Trump's response to Beijing's move to curtail Hong Kong's autonomy by imposing national security laws on the territory. Flows were light, with many investors waiting on the sidelines. The Shanghai Composite A-share index edged 1.4% higher over the week, while the CSI 300 large-cap index gained 1.1%. Investors worry that a punitive US response to China could result in a tit-for-tat escalation from Beijing, further straining ties between the two countries and dampening prospects for a global economic recovery in 2020.

THE WEEK AHEAD

The US jobs report will be in the spotlight this week, with markets predicting a payroll decrease of 8.25 million in May after a record 20.5 million decline last month as several states began to reopen their economies amid the coronavirus pandemic. The unemployment rate is expected to jump to 19.7 percent, the highest level on record, while wage growth should slow from an all-time high hit in April. Meanwhile, both the ISM Manufacturing and Non-Manufacturing PMI readings are likely to recover from 11-year lows reported in April. Other important publications are foreign trade balance, factory orders, construction spending, ADP employment change, and final readings of Markit PMIs and first-quarter nonfarm productivity.

Call us at LCP if you have any questions. Have a great week!

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