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# Quarterly Market Insights

## A Sharp Rally in Stocks Amid a Wall of Uncertainty

The speed of the economic contraction is unparalleled. While we are beginning to see signs of a rebound in the economy, the rally in stocks since the March low has been nothing short of remarkable, especially given the enormous amount of uncertainty.

| Stock Indices | Q2 2020 Return* | YTD Return %** |
|---|---|---|
| S&P 500 (large) | +20.54% | -3.08% |
| S&P 400 (midsize) | +24.07% | -12.78% |
| Russell 2000 (small) | +25.42% | -12.98% |
| MSCI EAFE (intl.) | +14.88% | -11.34% |
| **Bond Yields** | **June 30 Yield & Qtr. Change** | **Dec. 31, 2019 Yield** |
| 3-month T-bill | 0.16% (+0.05%) | 1.55% |
| 2-year Treasury | 0.23% (-0.07%) | 1.58% |
| 10-year Treasury | 0.66% (-0.04%) | 1.92% |
| 30-year Treasury | 1.41% (+0.06%) | 2.39% |
| **Commodities** | **June 30 Price & Qtr. Change** | **Year end 2019** |
| Oil per barrel | $39.27 (+$18.80) | $61.06 |
| Gold per ounce | $1,800.50 (+$203.90) | $1,523.10 |

*Stock indices include reinvested dividends and are for the period 4/1/2020-6/30/2020
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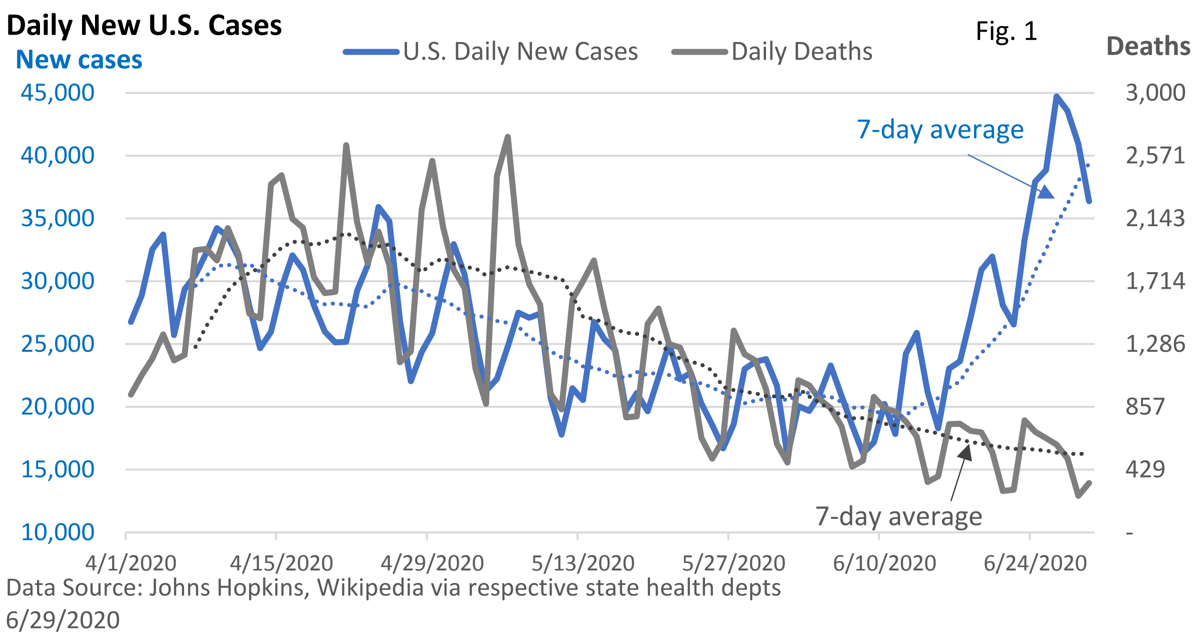
The Federal Reserve (the Fed) acted with unusual firepower to prop up the economy, shore up credit and financial markets, and provide the liquidity needed to help get the economy back on its feet.

Stocks have climbed a wall of worry as investors enjoy the Fed's generosity and eye reopenings across the country. "**Don't fight the Fed**" is an adage that seems to fit like a glove in today's environment.

Yet, the economic and market outlooks remain unusually uncertain amid limited visibility. While recent COVID-19 cases in New York are down sharply, we are seeing a spike in several states across the country. The good news – rising cases contrast with slowing deaths (Fig. 1).




It's not a second wave, as Dr. Anthony Fauci, one of the nation's leading infectious-disease officials, recently suggested. Instead, it's the ongoing spread of the first wave.

Reopenings seem likely to continue, though the pace is far from certain. In fact, some states have tapped on the brakes in the hopes of slowing the spike in new cases.

The recent uptick isn't a complete surprise, but it's unclear how long it may run, as some grow weary of social distancing and safety protocols.

**Recession Time**

Earlier last month, the National Bureau of Economic Research (NBER) declared that the economy peaked in February and a recession has begun. The prior expansion lasted a record 128 months using records back to 1854.

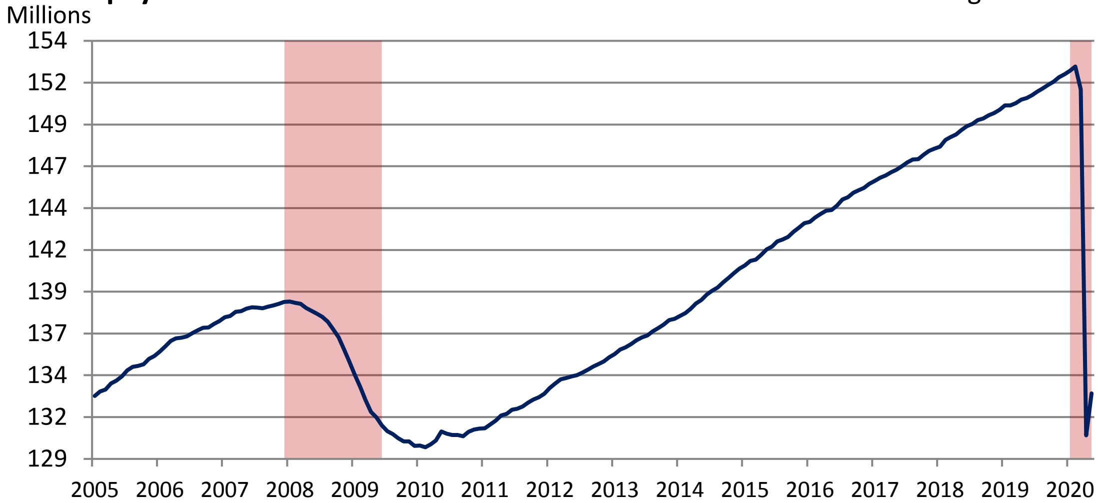
In making its declaration, the NBER said, "The usual definition of a recession involves a decline in economic activity that lasts more than a few months. However…the unprecedented magnitude of the decline in employment and production…warrants the designation of this episode as a recession, even if it turns out to be briefer than earlier contractions."

Reviewing various key data points, we may eventually find that April was the bottom and an economic recovery began in May. If so, it would be the shortest on record. As we entered 2020, the shortest occurred in 1980 and lasted six months.

**A Sharp Contraction, a Sharp Bounce**

In April, the economy shed a record 20.7 million jobs (Fig 2). In May, the economy unexpectedly <u>added</u> 2.5 million jobs (vs. the consensus of a loss of about 8 million) and the recently released June number showed an above consensus increase of 4.8 million jobs.

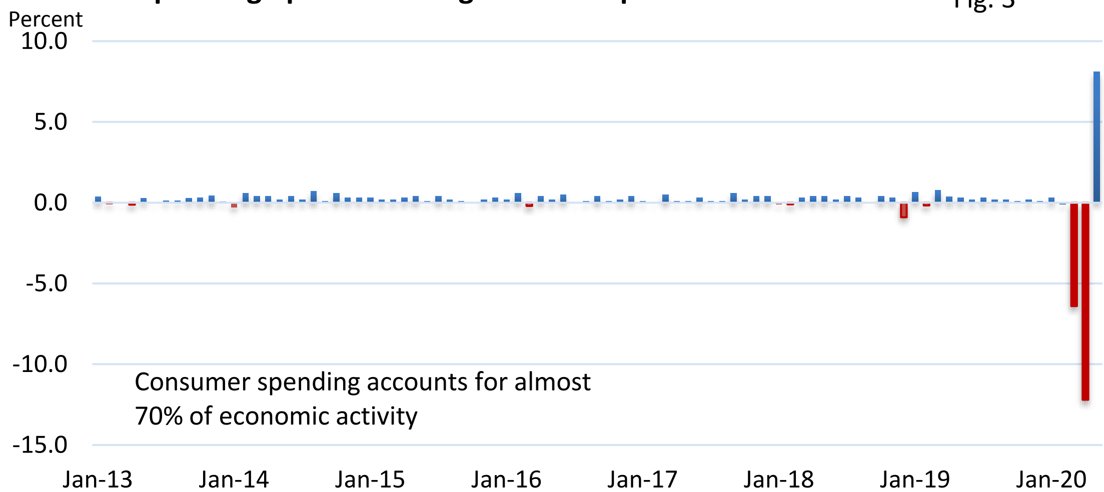
**Nonfarm payrolls** Fig. 2




**Data Source: U.S. BLS, NBER Shaded areas mark recessions May 2020**

We are a long way from getting back to pre-COVID levels but reopenings and recalled furloughed workers easily offset continued layoffs, which remain quite elevated. Meanwhile, following record declines in March and April, May experienced a record 8.2% rise in spending (Fig 3).

**Consumer spending - percent change from the prior month** Fig. 3




**Data Source: U.S. BEA May 2020**

Business reopenings, pent-up demand, stimulus checks, and generous unemployment benefits all contributed to the strong rebound. Still, consumer spending, which accounts for about 70% of U.S. economic activity, remains 9.3% below a year ago.

We have also seen good numbers on housing, while manufacturing has ticked higher based on industrial production data from the Federal Reserve. Still, the industrial sector remains well below year-ago levels.

Nonetheless, the recession continues to spur a high number of layoffs.

While the early data are encouraging, will May's and June's apparent bounce continue? It is difficult to say.

It's hard enough for economists to forecast economic activity in good times. Today, visibility is limited. But recent data is cautiously encouraging.

At our firm, we have been asking ourselves the following questions. Will the virus lay down over the summer? How will reopenings proceed? How quickly can a vaccine or effective treatment be developed that's readily available? What might happen to COVID-19 this fall and winter? How quickly will consumers venture back in public and resume prior spending patterns? All are difficult to answer but will help determine the path and speed of an economic recovery.

Given the spike in reported cases in June, the early answer to the first question suggests the virus isn't laying down as summer begins, and some states are delaying reopenings. Still, the virus isn't spiking everywhere. The uptick is happening mostly in southern and southwestern states at this time.

## Going Forward

So far, the bull market and the spike in cases have coexisted peacefully. But volatility has increased as short-term speculators trade on headlines.

There are some days when investors pull stocks lower on news that COVID cases are rising. The next day, shares rebound on the same news.

The rise in cases seems unlikely to derail the recovery. If we had been testing as extensively in March and April as we are today, we probably would have seen a much higher number of cases in the spring. Thankfully, the death rate has slowed (Fig 1).

Given the high cost, another round of lockdowns seems unlikely. Meanwhile, businesses and individuals will continue to adapt, reducing odds that the nascent recovery will stall. And, let's not forget, there is still stimulus in the pipeline and more may be forthcoming.

Longer term, the path of the virus will probably be the biggest variable in the economic equation. End the virus by either a vaccine or effective treatment and you remove an enormous amount of economic uncertainty.

## Final Thoughts

While we recognize that in the depths of the market sell off in March, things were very concerning. At that time, we strongly recommended not doing anything drastic; in the midst of a panic is not a time to do anything too dramatic.

Fortunately, we have had a nice snap back in the market. Having said this, **now** is a very good time to revisit your financial plan and think about your risk temperament to decide if you are positioned appropriately.

Remember, everyone has been given a “do over” and it would be a shame to miss this opportunity. Please, let us know if we can help in any way. Remember, hope is not a strategy. Your plan should consider various possibilities and be stress tested. As we oftentimes say, people don’t plan to fail, they fail to plan.

On an administrative level, we have enclosed our new form CRS (Client Relationship Summary). Form CRS is a short summary that we are now required to give all existing and potential clients since we are an SEC-registered investment adviser. It is supposed to be written in an easy-to-read manner and clearly explain the relationship between our clients/prospects and Hopwood Financial. Please let us know if you have any questions.

Thank you for your business and remember, **we are all in this together.**

**Hopwood Financial Services, Inc.**