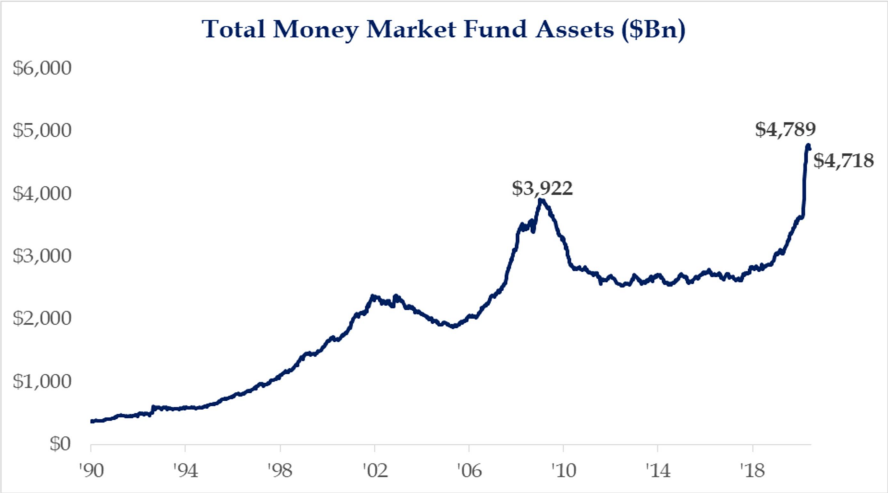
Strategas Daily Macro Brief

June 19, 2020

Prepared by Strategas Securities, a Baird Company

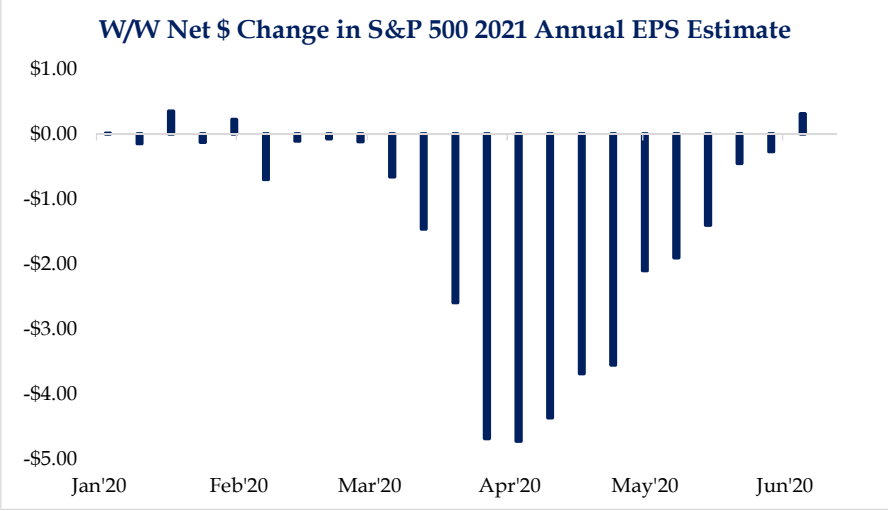
CASH LEVELS JUST BEGINNING TO TURN LOWER

Total assets in money market funds peaked at nearly $4.8 trillion about four weeks ago and have since begun to decline. However, as of the latest data release, there is still $4.7 trillion in money market mutual funds. It is important to keep in mind that as a percentage of S&P market cap, it is smaller than what it was during the GFC, which may mean the tailwind is shorter-lived.



2021 EPS ESTIMATES SHOWING GLIMMER OF HOPE

Despite the current lull in earnings reports, the stabilization in earnings estimates is welcome from a fundamental standpoint and has possibly contributed to the reduced price volatility of the market over recent days. However, second-quarter earnings remain a key hurdle for the market in which analysts and investors alike can discover how business fluctuated, where growth is possible, and where contraction is likely.



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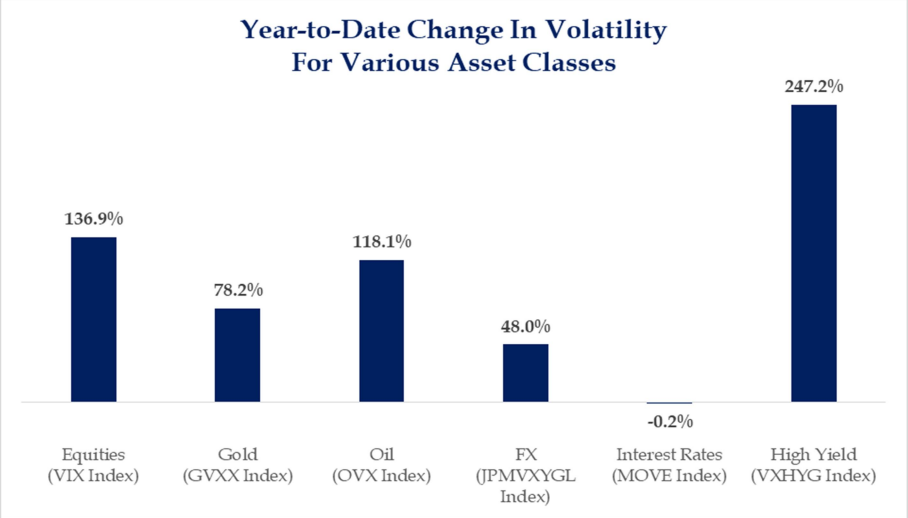
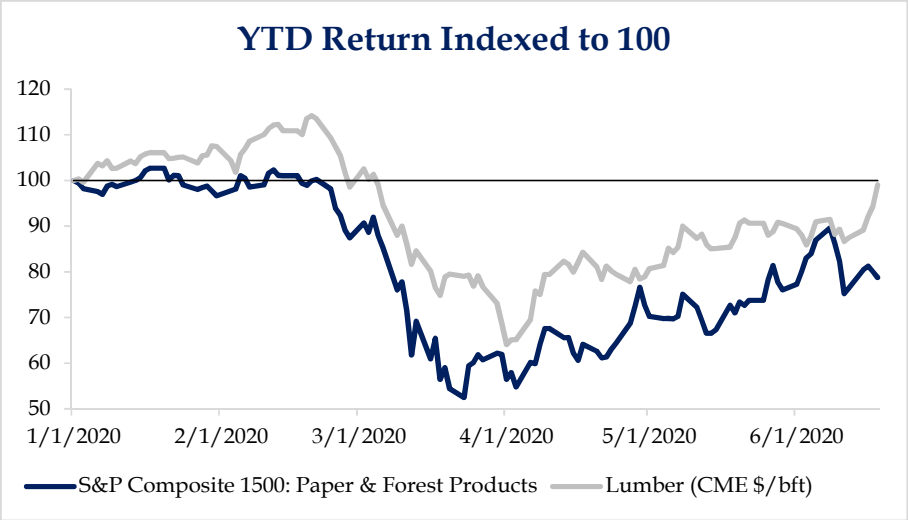
VOLATILITY JUMPS THIS YEAR FOR ALL BUT ONE ASSET CLASS

The below chart looks at the year to date change in volatility for six different asset classes. While capital markets have been choppy, interest rate volatility is the one asset class where volatility has actually declined. Perhaps it comes as no surprise given the enormous intervention from the Fed this year. For the time being, we would not expect this to change either.



LUMBER ESSENTIALLY FLAT ON THE YEAR

Lumber has had a strong rally off of its March lows and is essentially flat on the year after yesterday's bounce. Housing has been resilient with all of the headwinds from Covid-19 and has undoubtedly been a positive catalyst for the space. Paper and forest product stocks have not been as resilient and are still down -20% YTD. We could see a catch-up trade soon for the sector relative to the commodity.



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