LAKEVIEW CAPITAL PARTNERS – June 8, 2020

LAST WEEK IN REVIEW

Last week stocks recorded their best weekly gain in two months as investors celebrated signs of the beginning of an economic recovery. The small-cap indexes were particularly strong, with the Russell 2000 and S&P MidCap 400 indexes surging roughly 8%, while value stocks outpaced growth shares by a wide margin. The technology-heavy Nasdaq Composite Index established an all-time intraday high, and the S&P 500 Index moved within roughly 6% of its February 19 peak.

Within the S&P 500, energy shares outperformed, helped by news that OPEC and other oil major exporters were considering scaling back production. A rise in longer-term interest rates helped Financials, which boosts banks' lending margins. Industrials shares were also solid, lifted by a sharp rebound in Boeing. The typically defensive consumer staples and health care sectors lagged.

US - MARKETS & ECONOMY

Upside surprises in labor market data appeared to drive much of the week's positive sentiment. Stocks rose sharply on Wednesday, following a much smaller-than-expected decline in ADP's tally of monthly payrolls. The payroll processing firm reported that private-sector jobs contracted by only 2.7 million in May, versus expectations for a drop of around 9 million.
Official news on Friday that overall employment increased in May caught observers almost universally by surprise and sent the S&P 500 to its best daily gain in three weeks. Defying consensus expectations for a decline of around 9 million jobs, the Labor Department reported that employers added back 2.5 million positions during the month. Instead of rising to nearly 20% as forecast, the unemployment rate dropped to 13.3% from 14.7% (see note below).

Several other economic reports were less harmful than feared. The Institute for Supply Management's gauge of service sector activity showed a smaller-than-expected contraction in May, and April construction spending also fell less than anticipated. The consumer savings rate reached a record-high 33% in April, raising hopes for a surge in spending as the economy reopens. Nonfarm productivity also fell less than expected in the first quarter.

Two factors that had seemed to drive markets in recent weeks—U.S.-China trade tensions and progress in fighting the coronavirus—appeared to fade a bit from the headlines. Additional data on Monday confirmed the efficacy of Gilead Sciences' remdesivir in treating patients moderately ill with COVID-19, the disease caused by the coronavirus, but at a level that appeared to disappoint investors. Worries also grew that recent mass gatherings at protests would spark a resurgence in infections. News on Friday that AstraZeneca was planning to manufacture billions of doses of a possible vaccine by the end of the year may have supported the day's rally.

(Note: The report included a note at the bottom saying there had been a major “error,” and the unemployment rate likely should be higher than the widely reported 13.3 percent rate.
The special note said that if this misclassification error had not occurred, the “overall unemployment rate would have been about 3 percentage points higher than reported,” meaning the unemployment rate would be about 16.3 percent for May).

US STOCKS

Index	Friday’s Close Week Ending 6/5/2020	Week’s Change Week Ending 6/5/2020	% Change YTD Week Ending 6/5/2020
DJIA	27,110.98	1727.87	-5.00%
S&P 500	3193.93	149.62	-1.44%
Nasdaq Composite	9814.08	324.21	9.38%
S&P MidCap 400	1911.15	146.09	-7.36%
Russell 2000	1507.15	112.15	-9.67%

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

The positive economic news pushed the yield on the benchmark 10-year Treasury note to its highest level since mid-March. (Bond prices and yields move in opposite directions.) While resulting in a sell-off in Treasuries, the better economic data supported modest gains in the broad municipal market through much of the week. Traders I spoke with noted growing demand for recently challenged market segments, including issuers of airports, toll road, and tobacco-payment-backed bonds.

Meanwhile, the investment-grade corporate bond market saw steady demand from US and overseas investors. Credit spreads—the additional yield offered over Treasuries and an inverse measure of the sectors' relative appeal—moved tighter, with riskier market segments such as energy seeing the highest spread compression. Traders reported a very active primary calendar, with the volume of new deals reaching nearly twice initial expectations.

Strong technical conditions benefited the high yield market, with actively managed funds continuing to see positive flows, as they had throughout May. The market saw steady issuance, and most new deals were met with robust demand.

US TREASURY MARKETS AND WEEKLY YIELD CHANGE

3 Mth: +0.2 bps to 0.14%
2-yr: +0.5 bps to 0.21%
5-yr: +0.16 bps to 0.46%
10-yr: +0.25 bps to 0.90%
30-yr: +0.26 bps to 1.67%

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

The ECB increased its pandemic emergency purchase program by EUR 600 billion to EUR 1.35 trillion, extending it until at least June 2021, and pledged to reinvest proceeds from maturing bonds until the end of 2022. The ECB kept its key interest rates unchanged and said it continues to stand ready to adjust all its instruments, as appropriate, to ensure that inflation moves toward the ECB's goal "in a sustained manner." It's a rumor, but some of the bankers were heard yelling, "make it rain" (but in French and German).

Eurozone inflation slowed to a four-year low of 0.1% in May, from 0.3% in April, as energy prices tumbled. However, excluding energy, food, alcohol, and tobacco, core inflation held steady at 0.9%. Inflation turned negative in 12 of the 19 member states. Prices in Germany rose by 0.5%.

The final eurozone composite purchasing managers' index for May exceeded the initial estimate, rising to 31.9 from 13.6 in April, according to IHS Markit. The data, below the 50 break-even level that marks the difference between growth and contraction, signal that the economy continued to shrink as activity fell sharply across the region due to the coronavirus.

Germany's ruling coalition agreed on a EUR 130 billion stimulus package for the country, exceeding the top end of expectations by 30%. The package includes a cut in the value-added tax for the rest of the year, funds for 5G mobile networks and railways, and higher rebates for electric cars. Germany's stimulus measures, including liquidity aid and loan guarantees, total about a third of its annual economic output and substantially exceed the programs launched by other eurozone countries.

Japanese stocks continued their upward trend in the first week of June. The Nikkei 225 Stock Average advanced 986 points (4.5%) and closed at 22,863.73. Following a third consecutive week of strong gains, the Nikkei Average has recouped most of its steep March sell-off. The widely watched Japanese market benchmark is -3.4% 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 substantial weekly gains, but they remain down 6.3% and 9.4%, respectively, in 2020. The yen, which is generally considered a safe-haven currency, weakened versus the US dollar, which could be interpreted as a sign of investor confidence in the global economic recovery. At slightly more than JPY 109.17 per US dollar on Friday, the yen is slightly weaker than where it ended 2019.

Lastly, equity markets in China rose for the week, aided by a thaw in U.S.-China relations. The domestic CSI 300 Index added 3.4%, and the benchmark Shanghai Composite Index gained 2.8%.

US Trade Representative Robert Lighthizer said Thursday he felt "very good" about progress under the phase one agreement with China, which he said was honoring the pact and fulfilling its commitments on structural change. Lighthizer's comments at a virtual event held by the Economic Club of New York were seen as an olive branch toward China. However, bilateral tensions are expected to persist ahead of the US presidential election in November after China's decision to implement a controversial national security law in Hong Kong.

THE WEEK AHEAD

The Federal Reserve's policy meeting will be keenly watched next week, with investors looking for any change in the central bank's stance alongside its updated economic projections. In the US, Fed officials are seen holding the target range for the federal funds rate at 0-0.25 percent at the end of their two-day meeting on Wednesday, with all eyes on Chair Jerome Powell's press conference and the latest FOMC economic projections. In March, policymakers lowered interest rates to record low levels and launched a massive quantitative easing program, aiming to support businesses and households hit by the coronavirus outbreak.

On the economic data front, the preliminary reading of Michigan consumer sentiment for June will likely show a slight improvement in consumer morale as the economy reopens, while May's inflation rate is set to slow to the lowest since October 2015. Other notable publications are producer and foreign trade prices, JOLTs job openings, IBD/TIPP Economic Optimism, the government's monthly budget statement, and the final reading of wholesale inventories.

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

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