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Market Update: May 10, 2020

The April jobs report came out on Friday, and as anticipated, the numbers blew away any historical comparison. The bottom line: The U.S. economy lost 20.5 million jobs last month and the unemployment rate rose to 14.7 percent.

Investors knew it was coming.

Lisa Beilfuss – Barron's 5/8/20

Job losses from the pandemic are already double that of the Great Recession. The unemployment rate would have been closer to 19% if the labor force participation rate stayed at February's level. The good news … most of those surveyed said they were laid off temporarily.

So, what did the markets do? They rallied … and U.S. stocks ended another strong week with returns of about 4 percent. Year-to-date, U.S. stock losses are now just below 10 percent. Foreign stocks are down slightly in May, and are still off by 18% year-to-date.

How can stocks be rebounding when the economy is performing so poorly? This divergence can probably be attributed to the unprecedented government stimulus. The combination of monetary and fiscal stimulus represents about 25% of U.S. GDP.

The markets seem to be pricing in a "V-shaped rebound", but that doesn't appear to be realistic. Even as businesses come back, consumers will probably remain quite cautious.

As we have been pointing out, the Fed's actions may be sufficient to keep the economic crisis from becoming a financial system crisis; but this is at its core a health crisis, for which the Fed has no direct tools.

Liz Ann Sonders, Charles Schwab – Adv. Perspectives 5/4/20

The Labor Department reported 3.2 million workers filed unemployment claims last week. The number of claims was consistent with expectations and the fewest since the week of March 14, before the pandemic triggered shutdowns. A total of 33.5 million claims have been filed over the past seven weeks.

The decline has been sharp, which raises the possibility that we reached the bottom quickly … Most nonessential businesses have already closed and there are signs the virus' spread is easing in some areas … Parts of the economy are already starting to reopen.

Michael Moran, Daiwa Capital Markets – WSJ 5/7/20

Usually it is production that gets hurt the most in recessions. This recession is being driven by losses in the service sector.

People, feeling pinched in the past, may have deferred big-ticket purchases like new cars, but they didn't entirely stop going to restaurants, much less getting their hair cut.

Justin Lahart – WSJ 5/5/20

More than 5 times as many employees work in the service sector than in the goods-producing sector. The service sector drives U.S. employment and growth, and it has been hit especially hard by the coronavirus. About 25% of the U.S. workforce were employed in the service sector 100 years ago … today 80% work there.

The European Commission expects the eurozone economy to contract 7.7% this year and rebound 6.3% in 2021.

> **It is now quite clear that the EU has entered the deepest economic recession in its history.**

Paolo Gentiloni, European Commissioner – WSJ 5/6/20

Greece, Spain and Italy are expected to see their economies decline by 10% in 2020. Seven eurozone economies will have debts exceeding 100% of GDP … with Greece and Italy having debt levels of 200% and 159%, respectively. The eurozone as a whole is expected to have a total debt in excess of 100% of GDP.

> **Now, as (eurozone) governments move to restart frozen economies, richer northern countries stand positioned to pull ahead while battered and indebted southern ones struggle to recover.**

Norman/Martinez – WSJ 5/6/20

Retail sales in China were down approximately 20% during the first three months of the year. Starting in April, close to 90% of restaurants and commercial facilities were back to business. Local governments and companies have distributed billions of yuan in coupons to stimulate spending … but consumers are not buying.

> **The collapse in retail sales is so widespread that the Chinese government may have to start thinking about putting money directly into households' pockets …**

Alicia Garcia Herrero, Natixis Asia Pacific – Barron's 5/7/20

Consumers may be cautious because of China's unprecedented unemployment rate. The official rate of 6.2% captures mainly urban employment and excludes migrant workers. Analysts estimate 20% of the countrywide population is actually unemployed.

U.S. relations with China are worsening. Longstanding tensions over trade, technology theft, and foreign policy persist. Details behind the conflicts are substantial and complicated … and the coronavirus is tossing gasoline on the flames.

> **Fresh from logging the best month in over two decades, stocks are now faced with a familiar threat: rising U.S.-China tensions on multiple fronts.**

Reshma Kapadia – Barron's 5/4/20

According to a survey by Pew Research, two-thirds of Americans have an unfavorable view of China. Positive views of China's President Xi Jinping are also at new lows. China is trying to restart its economy, deal with high unemployment and suppress antigovernment protests in Hong Kong … while at the same time aggressively extending its global influence at the expense of the U.S.

> **We had undervalued the degree to which ideology drives the Chinese Communist Party. As a result, we had indulged in this conceit over the years that we could change China by welcoming China into the international order. It was pretty obvious by 2017 that that didn't work.**

H.R. McMaster, Former National Security Advisor and Retired General – WSJ 5/6/20

Companies reported massive profit declines, cut dividends, and laid off employees over the past few months. It's hard to say how quickly the economy will rebound.

I think the real question is, as the lockdowns ease, the doors to the restaurants may be opening, but how many customers are going to come in? There is a large amount of uncertainty hanging over the market's head.

Andy Sparks, MSCI – WSJ 5/6/20

People become cautious when there is great uncertainty. Social distancing will continue to limit consumer demand. Expect consumers to spend less and save more.

We should also expect to see new engines for growth.

Cornerstone Macro, for example, sees a likely transition to an economy less dependent on consumers, and more dependent on investment … from housing to manufacturing, from low tech to high tech, and from offshoring to onshoring. They also believe other factors could lead toward China's *descent* and the Unites States' *ascent* as a cost-effective place for business investment.

BlackRock offers the following 5 ways the world could change:

1. Technology will power a low-contact world … such as remote offices, online education, online gaming, streaming, driver-less delivery, telehealth, and eSports.
2. We will move from the decades-long trend of globalization to regionalization or localization. Supply chains will be diversified. As remote workforces grow, we could also see people gravitate from cities to rural areas.
3. Companies will strengthen their balance sheets by reducing debt and curtailing share buybacks.
4. ESG investing (environmental, social and governance) will be an enduring market theme.

5. Once a vaccine is in place, expect to see a healthy rebound in leisure travel. Business travel, however, may never return to pre-pandemic levels.

We are making strides each and every day. Human testing in the U.S. has begun on an experimental vaccine developed by Pfizer and BioTech SE. Testing on candidates in Germany began last month. Results from the U.S. testing could be available as soon as next month, and the vaccine could be ready for emergency use in the fall.

My father always stressed the importance of family, friends, and community … an emphasis so critical today. I hope all you moms had a wonderful Mother's Day. Thanks so much for all you do.

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