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Market Update: May 17, 2020

Last week was chockfull of historically dreadful economic reports, which included sharp declines in retail sales and industrial production, along with an additional 3 million Americans claiming unemployment benefits. Global stock markets were down just over 2% for the week … probably not all that bad a result considering the economic damage.

> **The good news is that the bad news about the U.S. economy can't get any worse.**
>
> **Randall W. Forsyth – Barron's 5/15/20**

On Friday, the Commerce Department reported that retail sales fell a seasonally adjusted 16.4% in April from a month earlier. In a separate report, the Federal Reserve said industrial production dropped 11.2% in April. Both results were the steepest declines on record.

> **April was the cruelest month. It's going to be less worse with each month, as people slowly come out of the foxhole and enter the mainstream of American consumerism.**
>
> **Craig Johnson, Customer Growth Partners – WSJ 5/15/20**

On Thursday, the Labor Department reported 3 million Americans filed for unemployment insurance during the week ended May 9. Over the past eight weeks, 36.5 million Americans have filed for benefits … numbers that shatter any historical comparisons. Overall, claims continue to decline, as 43 states saw applications fall last week.

The numbers are very high, but they're stepping down every week, and I see no reason why that decline in filings wouldn't continue. Employers are likely poised to bring people back, but right now we're in a holding pattern.

Keith Hall, Council of Economic Advisers – WSJ 5/14/20

Economists are watching *continuing claims* to see how many workers are returning to the workforce. *Continuing claims* (people who remain on benefits) for the week ended May 2 reached 22.8 million, an increase of less than a half million from the previous week, and below expectations.

The continuing claims reading was actually quite encouraging … you may be shocked to hear that 16 states posted a decline in the number of people collecting benefits … I am eager to see next weeks reading. If the figure isn't up much again, then that would be a really interesting signal.

Stephen Stanley, Amherst Pierpont Economist – CNBC 5/14/20

Investors are weighing the benefits of opening the economy against concerns that it could ignite new coronavirus infections. South Korea, for example, has seen a resurgence of new infections and is bracing for a second wave of cases. New cases have also been reported in the Chinese city of Wuhan, the origin of the pandemic.

The next few weeks are going to be very bumpy and very important to parsing out what the recovery is going to look like. We're going to have to live with the uncertainty of that two-steps-forward, one-step-back news flow.

Christopher Smart, Barings – WSJ 5/11/20

The Congressional Budget Office (CBO) reported April's budget deficit came in at $737 billion … and $1.48 trillion for the first seven months of fiscal 2020. The CBO expects the deficit to reach $3.7 trillion for the fiscal

year ending September 30, but that is only if Congress doesn't pass any additional stimulus measures.

> **The costs of the coronavirus shock and the government response will hang over the economy for years. The sooner the economy starts growing again, the lower the costs.**

The Editorial Board – WSJ 5/8/20

Consumer prices fell 0.8% last month. It was the second month in a row prices have declined due to business closures and stay-home orders. Economists expect the decline in prices to be temporary, as economies reopen and demand increases.

The index for gasoline prices tumbled 20.6% in April, while food prices posted their largest monthly increase in over 45 years. Overall, consumer prices were still up 0.3% from a year earlier.

> **The fallout from the coronavirus has a large disinflationary effect on prices due to the large demand shock, plunge in oil prices, and strong dollar. A surge in inflation is the least of our worries.**

Kathy Bostjancic, Oxford University – WSJ 5/12/20

Some people are actually starting to compare our present economic dilemma to the Great Depression. For those keeping score, from 1929 to 1933, the U.S. economy declined for 43 consecutive months. Unemployment reached 25% and remained above 10% for a decade.

Today, unemployment is softened by safety-net programs like unemployment insurance. Also, most economists expect a rebound will begin sometime later this year.

> **I don't find comparing the current downturn with the Great Depression to be very helpful. The expected duration is much less, and the causes are very different.**

Ben Bernanke, former Fed Chair – WSJ 5/10/20

The IMF estimates the world economy shrank about 10% during the Great Depression, but expects the global economy to decline by 3% this year and return to growth by 2021.

> **We've had this very abrupt, very sharp, immediate reduction in economic activity, driven by government policies to shut down economies. And because it was very abrupt, the numbers are astronomical. The way the world evolved into the Great Depression was a slow and steady decline. It was a slow strangulation of the economy.**
>
> **Douglas Irwin, Dartmouth College – WSJ 5/10/20**

Many countries are reaching their limits or have maxed out on the economic assistance they can offer. This is a particular concern for emerging market economies. According to HSBC analysts, about 25% of emerging-market sovereign debt is falling into distressed territory.

> **Every emerging market among the largest 20 economies has seen both household and nonfinancial corporate debt increase as a portion of GDP in the past decade. Most have increased government debt levels, too, and many lack large pools of domestic capital …**
>
> **Mike Bird – WSJ 5/11/20**

Infrastructure spending helped China weather the global financial crisis, but it also increased concerns over rising debt levels. China is again ramping up infrastructure to shore up growth, as the pandemic continues to hurt consumption and industrial production. The spending has been financed by off-the-books funding from local governments.

> **Off-balance-sheet entities are selling bonds to finance projects … Beijing has previously taken a tougher line on these debts, over which it has little direct oversight and which have often fed wasteful spending.**
>
> **Xie Yu – WSJ 5/11/20**

There has been a lot of talk recently about high stock valuations. While current prices do not foretell an economic depression, they also do not suggest a rapid return to pre-pandemic economic levels. Comparing prices to current earnings (PE ratio) would suggest that prices are the most expensive since the technology spike twenty years ago … a comparison that is relatively meaningless in this environment of social-distancing and shutdowns.

> **The PE ratio assumes the distant future will look something like the near future. Right now, that assumption is badly wrong … My advice is to forget comparisons with the dot-com bubble. Valuation tools are only as smart as their users.**

James Mackintosh – WSJ 5/13/20

We had hoped for a V-shaped recovery. Some have suggested the recovery will be U-shaped … others talk of W and even L shapes. Two-thirds of economists now expect the recovery to be shaped like the Nike Logo … a *swoosh*. In other words, the large drop will be followed by a gradual recovery.

> **Unsurprisingly, companies facing greater exposure to travel and requiring face-to-face interactions are expecting a longer stretch of time before business activities would return to normal. In contrast, companies in market segments like construction, business supplies, and data centers expected faster normalization.**

Goldman Sachs Portfolio Research – WSJ 5/13/20

House Democrats have proposed another $3 trillion stimulus package, while Senate Republicans have begun to formulate their own policy ideas. I think it's fair to say another stimulus package is in our future.

> **There is a growing sense that the recovery may come more slowly than we would like … and that may mean that it's necessary for us to do more.**
>
> **Jerome Powell, Federal Reserve Chairman – WSJ 5/13/20**

According to BACtrack, a maker of smartphone-enabled breathalyzers, alcohol consumption has increased during the pandemic shutdown. Sales growth in boxed wine is up 44%, and sales of 1.75-liter liquor bottles have rocketed 47% during the pandemic. The World Health Organization even went as far as warning that consumption of alcohol will not protect you from COVID-19.

> **Apparently, liquor and wine drinkers have decided to both go big and go home … I've heard anecdotal reports of curbside bins on recycling day overfilled with spirits, wine, and beer empties. Stressed-out work-from-homers are said to be guzzling quarantinis during Zoom video happy hours.**
>
> **Jack Hough – Barron's 5/8/20**

In summary … We probably should expect a more gradual economic rebound. While stock prices may already discount that outcome, more fiscal stimulus should lend additional support to current valuations.

Along the way, we all may need a drink or two to help ease the lockdown stress … but *guzzling quarantinis* is probably not a great idea. Stay safe, and thanks for your ongoing support.

Daniel G. Corrigan, CPA/PFS, CFP®