ELEVATOR OR STAIRS?

Stocks recovered from last week’s brief malaise thanks in part to some positive economic data points confirming a strong bounce back in economic activity.

To kick things off, retail sales surged by 17.7% in May, largely on the back of massive increases in clothing, electronics, and furniture. This was the largest monthly jump since record keeping began for this series back in 1992. Not surprisingly, the smallest gains were posted by grocery and health stores, the two categories that held up well during the lockdown period. And while the monthly gains did hit historically high levels, the current level of overall retail sales is still below its pre-COVID 19 levels, suggesting there is more ground to regain. Indeed, on an annual basis, retail sales are still down by -6.1%, year-over-year. Similar to other recent data, the sharp rebound argues for a V shape recovery, which had the market elated for the time being. However, the true test of the recovery will be in the months ahead, as the current gains reflect pent-up consumer demand due to the lockdown, the impact of stimulus check payments, and expanded unemployment benefits.

Separately, home builder confidence continued to recover in June and was better than expected. The current month's 21-point gain combined with May's 7-point improvement pushed the headline index up to a 58 level, recovering two thirds of April's 42-point plunge. Mortgage purchase applications have also been on a hot streak recently as mortgage rates declined to record lows. Prospective buyer traffic more than doubled from May as sales expectations staged a roughly 50% recovery.

Only industrial production disappointed, with April's decline even more severe than previously estimated and May's recovery more timid than expected. After declining 12.5% in April, down from an initially-estimated 11.2% drop, industrial output rose just 1.4% in May, less buoyant than the 3.0% gain economists had expected. For now, there is little evidence of a manufacturing revival underway in the wake of COVID shutdowns.

In a speech last month, Tom Barkin, president of the Federal Reserve Bank of Richmond, noted, "We took the elevator down, but we're going to need to take the stairs back up," in a description of the economic recovery the Fed expected to take shape due to COVID-19. No surprise, then, that the central bank continues to make headlines, this week for its $750 billion corporate bond purchase program to stabilize credit markets and support low corporate borrowing rates in this period of crisis. It was also notable that Fed Chair Jerome Powell felt the need to admonish Congress in this week’s testimony, saying, “It would be a concern if Congress were to pull back from the support that it’s providing too quickly.” While Fed leaders have traditionally avoided endorsing specific fiscal policies to stay removed from more partisan debates involving elected officials, Powell is clearly worried that recent economic improvement could be jeopardized if Congress curtailed support to workers displaced and businesses shuttered by the coronavirus pandemic.

Which brings us to the conclusion that monetary and fiscal policies are playing a crucial role in cushioning the effects of the “lockdown recession” and in propping up asset prices, at least for now. While this artificial support is uncomfortable and perhaps unsustainable, it is an important component of current market conditions that have seemingly set a floor under asset prices. Indeed, it could be true that the more disappointing economic data is, the more confident markets will become in the long-range nature of fiscal and monetary support which will in turn further stabilize markets. This paradox occurred in the wake of the Great Financial Crisis, and is one that market participants have come to believe in.

As we have noted many times in this publication, these influences have significant short-term impacts, but long-term investment results are determined by earnings and fundamentals. Building a successful investment plan involves blending investments that move quickly like elevators or more slowly like stairs, but one way or another the goal is to get you to your destination. The market's volatility has and will likely continue to be breathtaking in 2020, and we are preparing for all possibilities on your behalf with the funds you entrust to our oversight.

Thank you for your interest in our weekly investment commentary. If you would like to speak personally with a member of our team at any time, please click here.

GOOD HOUSEKEEPING

Even as life may shift to a more normal course over the months ahead, the experience of the pandemic has many implications for our financial lives. Some of the implications are coping with loss of income as employment conditions change, the stress of market volatility, and changes to timing for goals like vacations, home purchases and sales, saving for the future, and giving to those you love. There is also the realization that there is no time like the present to get your house in order. We offer some practical tips for financial housekeeping that is one step in the process.

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