**May 18, 2020**

**OBSERVATIONS**

- Covid-19: US experiences more than 85,000 Covid-19 related deaths as of 17-May. Moderna reports positive results from early stage human trial – after 2 doses trial participants developed virus antibodies.
- Consumer prices (ex food and energy) declined -0.4% in April. This stands as the steepest monthly decline since 1957 when the data series began.[1]
- Initial jobless claims were 2.98 million compared to expectations of 2.5 million. Initial claims continue to see week over week declines since peak filings reported 27-March. The 8-week total now stands at 36.5 million.[1]
- Retail sales declined -16.4% MoM in April (expectations -12%) – a record since the series began in 1992.[1]
- Industrial production declined -11.2% MoM in April (expectations of -11.2%) – steepest decline in the data series' 101-year history.[1]
- In 2019 the number of internet users in China increased by 4.9% to 910 million people—representing an online penetration rate of 64.5%. Similarly, the number of online shoppers increased by 100 million to reach 710 million individual buyers and total online retail sales last year were $1.5 trillion in China versus approximately $600 billion in the US.[2]
- The Federal Reserve purchased $305 million in corporate credit ETFs on 12-May, the first day of operation since this asset purchase program's announcement on 23-March (more in this week's ***One More Thought***).

**EXPECTATIONS**

- In a prepared speech, Federal Reserve Chair Powell noted that additional stimulus may be needed from Congress rather than the Fed to ensure greatest effectiveness. Powell also discussed negative interest rates, noting the Fed's view has not changed – "This is not something we're looking at."
- In Sunday's 60 Minutes, Powell reinforced the Fed's unlimited policy resources.
- Amid buyback and dividend curtailment during the COVID-19 crisis, Bank of America notes that buyback activity is on pace for a record low during this quarter (Q2).
- International Air Transport Association (IATA) estimates that passenger traffic will not see pre-crisis levels until 2023. Passenger traffic has declined 90% in the U.S. and Europe since the crisis began.[3]

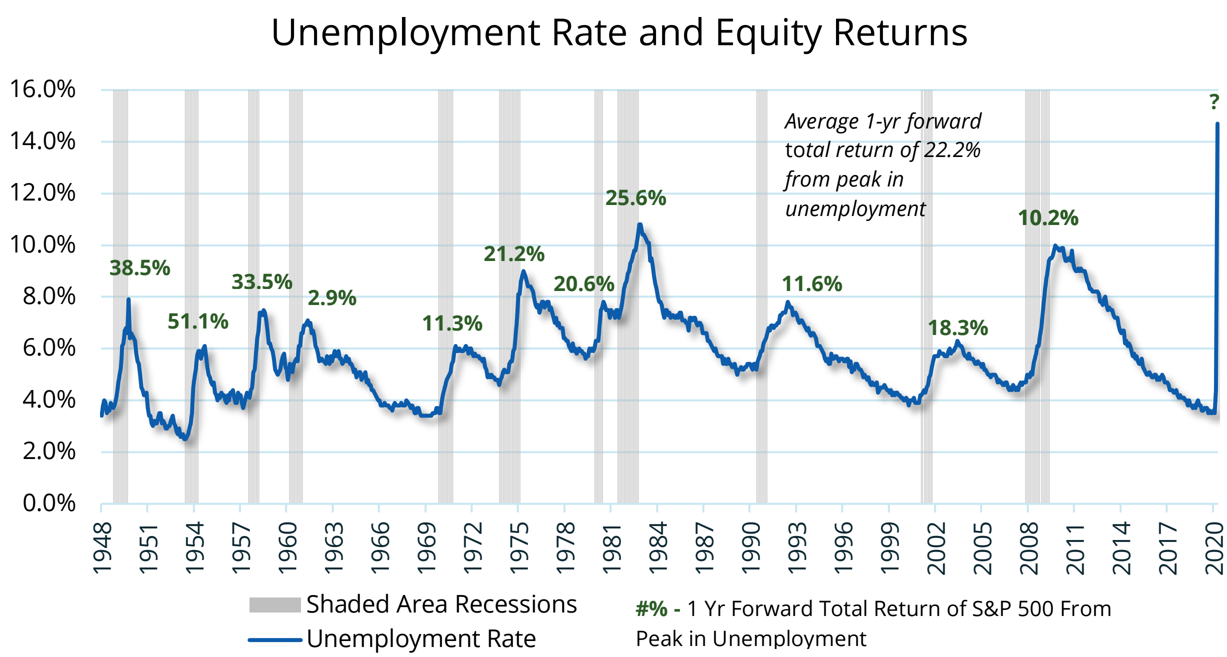
***ONE MORE THOUGHT***

A primary tool in the Federal Reserve's arsenal is in its ability to influence markets through the use of words. Without committing a single cent, the Fed has been able to thaw frozen credit markets while also helping to reduce the cost of funding for corporate borrowers. The March 23rd unveiling of two facilities targeting the corporate credit markets - Secondary Market Corporate Credit Facility (SMCCF) and Primary Market Corporate Credit Facility (PMCCF) – have helped narrow credit spreads and spur credit issuance. From 23-May to 30-April, spreads on high yield debt declined from 1,100bps to 744bps, while investment grade credit spreads declined from 373bps to 202bps.[4] Additionally, for the period YTD thru April, investment grade debt issuance has increased 78.1% YoY, while high yield issuance has increased 23.1%[5]. All of this without committing a single cent. This now changes as the Fed, through the SMCCF, began operations to buy exchange traded funds (ETFs) on 12-May. The program will primarily cover investment grade corporate debt ETFs, with the remainder in high yield debt ETFs.[6] The PMCCF, the program

[1] *Bloomberg LP*
[2] *US Census, China Internet Network Information Center*
[3] *IATA COVID-19 – Outlook for air travel in the next 5 years, 13-May*
[4] *Bloomberg LP, Bloomberg Barclays US Agg Corp Avg OAS Index, Bloomberg Barclays US Corp HY Avg OAS*
[5] *SIFMA, Refinitiv*
[6] *Federal Reserve Bank of New York, 11-May*

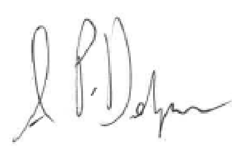
designed to buy corporate bonds and syndicated loans, is expected to begin operations soon. If corporate credit issuance trends hold, 2020 will rival the prior record of $1.669tn of corporate debt raised in 2017. The unintended consequences of these programs remain to be seen.

**CHART OF THE WEEK**




*Source: Clearstead, U.S. Bureau of Labor Statistics, Unemployment Rate [UNRATE], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE, May 10, 2020, Bloomberg LP – 1 yr forward (monthly) total returns from month of peak unemployment*

The unemployment rate (a lagging indicator) tends to peak after recessions have ended and economic recovery has taken hold. Equity markets have tended to perform well following peaks in unemployment. It is important to note that this cycle's peak in unemployment is likely in the coming months.



Carl Tippit, CFA
Head of Investments
Clearstead

Aneet Deshpande, CFA
Chief Strategist
Clearstead