

June 1, 2020

OBSERVATIONS

- Covid-19: Latin America now accounts for 40% of daily deaths globally.¹
- Amtrak ridership and revenue down over 90% YoY since the pandemic started. Amtrak plans to cut its labor force by 20% and has requested an additional \$1.475 bn in emergency funding.²
- Japan approves additional \$1.1tn in stimulus in hopes of limiting the depth of recession for the world's 3rd largest economy.
- Discount retailer Tuesday Morning filed for chapter 11 bankruptcy, expects to close 1/3rd of stores.¹
- Bankruptcy filings now total 98 YTD – the most since 2009. Consumer discretionary related businesses accounts for 41%, while the energy sector accounts for 16% of filings.³
- China manufacturing PMI registered 50.7 in May (expectations of 49.6) – readings above 50 indicate economic expansion.⁴
- The S&P 500¹ rundown (thru end of May):
 - YTD, S&P 500 down -4.98% and now less than 10% from all-time highs reached in February this year.
 - YTD, the median company in S&P 500 down -10.6%.
 - YTD, top performing company +72.9% (DexCom – Medical Devices), worst performing company is Norwegian Cruise Lines, -73.2%.
 - YTD, 27% of S&P 500 constituents posting positive returns, while 73% have negative returns.
 - YTD, 4 of 11 sectors positive (Tech, Discretionary, Communication Services, and Health care).

EXPECTATIONS

- May's employment report (TBA 5-June) is expected to show the unemployment rate increased to 19.6% up from April's 14.7% readings.¹
- The Bureau of Economic Analysis reported (29-May) the personal savings rate hit a record 33%¹ in April – a result of declines in spending and additions from stimulus. The extent to which savings reverse course (i.e. turn into spending) will play a role in the pace of the economic recovery going forward.

OPPORTUNITIES

- The rally in equity markets (e.g. S&P 500 +36.6%¹ since 23-March) offers an opportunity to reassess current portfolio positioning vs long term objectives and rebalance towards those target allocations.
- Since mid-April, the 10-Year Treasury has traded in a relatively narrow band as fixed income market participants believe the Fed will adopt a "Yield-Curve Control" policy. Such a policy would reinforce the "lower for longer" interest rate outlook and should encourage fixed income investors to take on more risk to capture higher yields.

ONE MORE THOUGHT – Initial claims, Continuing claims, and Unemployment¹

Since mid-March, when widespread shelter in place policies went into effect across most U.S. states, over 40 million Americans have filed for unemployment (initial jobless claims) through the third week of May. Meanwhile, the latest unemployment data indicated that the unemployment rate in April was nearly 15%. A third measure of the labor

¹ Bloomberg LP

² Reuters, 26-May

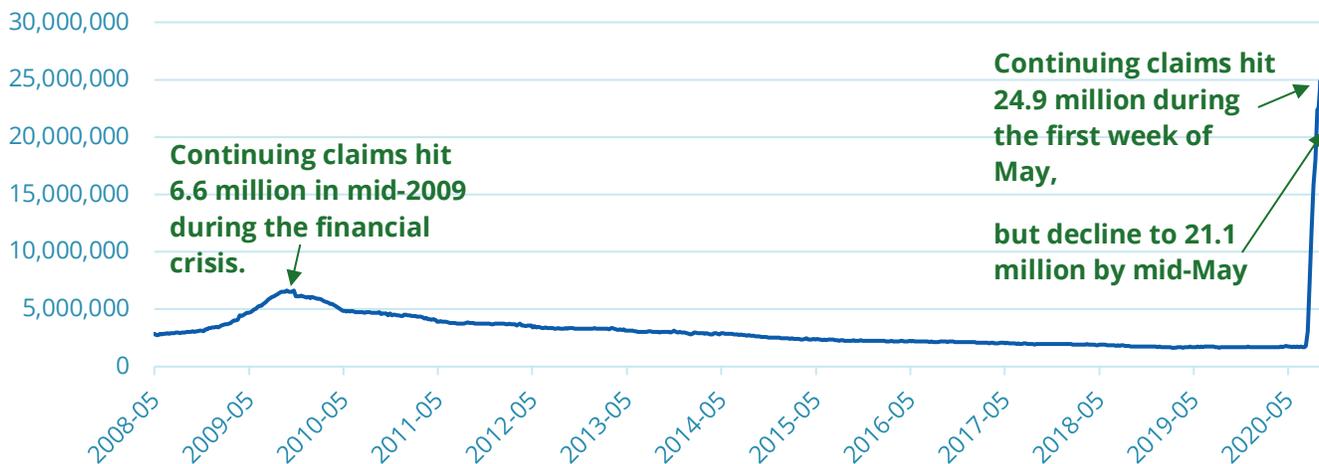
³ Bloomberg LP, Filings are Chapter 7 and 11 with liabilities greater than \$50 million, as of 28-May

⁴ CNBC, Caixin/Markit

market shows that Americans actually receiving unemployment benefits —so called continuing unemployment claims—was just under 25 million in mid-May. This has raised some questions on the relationship between initial unemployment claims, continuing claims, and the unemployment rate. One must keep in mind that while these three different data series are related, they are measuring different labor market phenomenon. Initial unemployment claims provide data on every worker that filed a claim for unemployment benefits from their respective state plans. However, many of these claims will be denied by the states for various reasons and will not result in actual unemployment benefit payment. Continuing claims provides an indicator of how many of those initial claims have been approved and are actively receiving benefits. The unemployment rate is generated by survey and tries to identify the share of U.S. workers who are no longer employed, and actively looking for work. Consequently, Americans who respond to the survey as being unemployed, but not actively looking for a job, are not counted as being unemployed in terms of the official unemployment rate.

CHART OF THE WEEK

Continuing Unemployment Claims



Source: Bloomberg LP, Clearstead, Data as of 29-May

Continuing unemployment claims seem to have peaked in mid-May at 24.9 million, which suggests that May's unemployment rate should be higher than April's 14.7% figure. As states continue to reopen, rehiring should lead to declines in continuing claims and similarly a decline in June's unemployment rate.



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