June 8, 2020

OBSERVATIONS

- Covid-19: Driven by declines in the worst hit states, U.S. aggregate case load and deaths continue trending down. However, some states (CA, UT, AZ, NC, FL, AR, TX) seeing increases in confirmed cases.
- ECB boosts QE mechanism by €600 ($680) billion to combat the economic weakness in the EU. The increase was larger than most analysts estimates, and the total ECB QE package now exceeds $1.5 trillion.[1]
- ISM non-manufacturing survey, while still in contraction showed signs of improvement, with the index rising to 45.4 in May.[2]
- Record low interest rates fuel mortgage activity – the Mortgage Bankers Association's purchasing index now stands at levels last seen in January. The index is on a 7-week surge not seen since 1994.
- Employment report: Analyst estimated a decline of -7.5 million in non-farm payrolls (unemployment rate of 19%)[1]. Non-farm payrolls increased +2.5 million (unemployment rate fell to 13.3%), the largest one-month gain on record. 1.4 million of the 2.5 million jobs gained were in 'food services and drink places'.[3]
- Illinois becomes the first state to borrow from the Fed's Municipal Liquidity Facility (MLF). The state will borrow $1.2bn for 1 year to plug a budget shortfall that was in part created by the pandemic.[3]
- 10-year yields end the week near 90bps (up 24bs or 37% higher), an 11-week high.[1]

EXPECTATIONS

- Credit funds took in a record high $15.6bn during the week ended 3-June. Investment grade funds saw positive flows of $9.91bn (an all-time record), while high yield funds garnered $5.75bn in flows for the week, the category's 10th consecutive week of inflows.[1]
- A breakthrough in negotiations between the UK and the EU regarding the terms of trade that will come into effect at the end of the year is unlikely ahead of the mid-June EU-UK summit—expect negotiations to stretch well into the fall.
- The Federal Reserve begins its two-day meeting on 9-June. Markets await clarification on the use of so called 'yield-curve control' as well as signals that the central bank might be pivoting from rescue to recovery.

ONE MORE THOUGHT - with many implications

The COVID-19 pandemic has seemingly accelerated a number of pre-pandemic trends (themes), while at the same time causing many to rethink the world in which they interact. Some of these include:

- Deurbanization – a recent Harris Poll showed that nearly 1/3rd of respondents considering moving to less dense areas.
- Less business travel, conferences, and conventions – corporate travel could recover 70%, while conferences and conventions may only recover 50% by this time next year.[4]
- Re-shoring – According to Axios, the pandemic has affected the supply chains of 75% of U.S. companies.
- Robotics, Automation, Machine Learning – pre pandemic, McKinsey estimated up to 30% of jobs in the U.S. could be automated by 2030, with only 5% of jobs being fully automated away.
    - Supply chain survey showed 73% of respondents indicated robotics will be critical for their organizations in the next 3 years.[5]

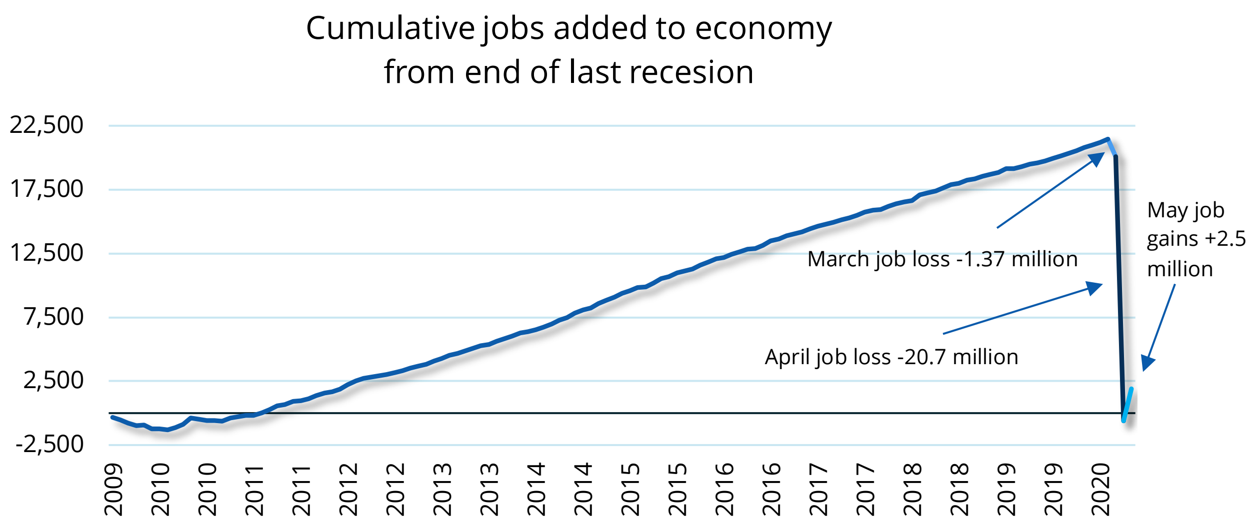
---

[1] *Bloomberg LP*
[2] *Institute of Supply Management, May 2020 Report on Business*
[3] *Financial Times, 3-June*
[4] *American Hotel and Lodging Association*
[5] *IDC, "Will COVID-19 Accelerate Robotics in the Supply Chain", 31-May*

- Acceleration of ESG (Environmental, Social & Governance) investing – record flows into ESG funds in Q1. COVID-19 and recent social unrest could shift the focus to the "S" in ESG.[6]
- Work from home economy[7] – cost savings, efficiency, sustainability, and health play a role in this trend.
  - Globally, employees are not at their desk 50-60% of the time.
  - 25-30% of the workforce will be working from home by end of 2021.

Recessions and exogenous shocks have the ability to accelerate trends that would otherwise have taken many years. With technological advances change can be implemented near instantaneously. As always, we continue to monitor the everchanging landscape for potential investment implications on behalf of our clients.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP

The 2.5 million in jobs gained represents approximately an 11% recovery of lost jobs since the pandemic began. A recovery to full employment is likely to take a number of years.

Carl Tippit, CFA
Head of Investments
Clearstead

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. These materials do not constitute an offer or recommendation to buy or sell securities. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. You should consult with an investment professional before making any investment decision.
Performance data shown represents past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.

[6] *CNBC, Morningstar*
[7] *Global Workplace Analytics, Work-At-Home After COVID-19 – Our Forecast*