OBSERVATIONS

- Covid-19: In spite of recent developments (i.e. spikes in cases), Morgan Stanley economists maintain confidence in a "V" shaped recovery. The firm's biotech analyst sees antibody treatments by the end of August, vaccination approval for emergency use in the fall with broad based availability in Q1 2021, and herd immunity achieved by the summer of 2021.
- The Chicago Fed National Activity Index (a measure of broad economic activity) registered +2.61 vs. estimate of -10, led by improvements in production and labor related indicators (readings below zero indicate below trend growth).[1]
- Wirecard, a large German Fintech firm and component of the DAX index, filed for insolvency last week amid evidence of accounting fraud related to over $2 billion in cash on its balance sheet that auditors could not verify and may have never existed. According to the FT, the firm's auditor, E&Y, failed to ask for the company's bank statements for 3 years. The company's former CEO has been arrested on fraud charges.
- Hotel and travel sectors remain substantially depressed, despite the gradual reopening of the US economy; TSA data suggest air travel is less than 25% of 2019 levels in mid-June while hotel occupancy is down 41% from the same period in 2019 according to an industry trade group.[2]
- Following the Fed's annual stress test of banks, both dividends and buybacks for banks will have newly imposed restrictions in order to protect bank capital buffers given the current economic strains.
- An additional 79,000 applied for mortgage forbearance programs offered under the CARES Act bringing the total to 4.68million. Mortgage servicers will need to advance some $5.7billion per month to holders of mortgage backed securities.[3]
- The Fed in March unveiled lending programs it said could provide $2.3 trillion to the economy. So far, that has totaled just $143 billion, or 6.2% of the total firepower.[4]

EXPECTATIONS

- The equity market's attention continues to be focused on the **rate of change** rather than the **level** of economic data. As positive surprises in economic data slows, we would expect that the level of economic data to come back in focus – comparable data are likely to start getting difficult from here.
- End of month and quarter rebalancing likely to influence markets heading into 30-June. The 14.07% difference in returns between the S&P 500 (+16.97%) and Barclays Agg (+2.90%) during Q2 (thru 26-June) has been the best quarter for stocks relative to bonds since Q2 of 2009 (5th best since 1976).[1]

ONE MORE THOUGHT

Assessing the state of the US economy is always a daunting task and has become more difficult in the recent months given the COVID-19 induced lockdown that brought economic activity in some sectors to a complete halt. In order to help forecasters and policy makers understand the "real-time" state of the U.S. economy, researchers at Harvard have created a dashboard (www.tracktherecovery.org) that combines data from leading credit card processors, payroll firms, job posting sites, and GPS mobility data to provide a real-time picture of the U.S. economy. These indicators include employment rates, consumer spending, small business activity and job postings

[1] *Bloomberg LP*

[2] *Smith Travel Resources, https://str.com/press-release/str-us-hotel-results-week-ending-20-june*

[3] *Housing Wire, Black Knight, https://www.blackknightinc.com/black-knights-first-look-at-may-2020-mortgage-data/, 26-June*

[4] *CNBC.com*

across counties, industries, and income groups. This data can be used to assess economic activity on a daily basis. An interesting finding from the data shows the CARES Act and other fiscal stimulus measures intended to help America's low- and middle-income workers has largely worked to stabilize spending. Consumer spending among low-income Americans moved quickly towards the levels seen in January-2020 after stimulus checks began to arrive in the mail. Conversely, higher income consumers have cut back spending—primarily on travel, hotels, and other in-person services—and are still about -13.3% below pre-COVID levels as of mid-June. This dataset is likely foreshadowing 'official' data to be released by the government and will be increasingly relevant as the U.S. economy bounces back from the first global pandemic in over a century.

GRAPHIC OF THE WEEK
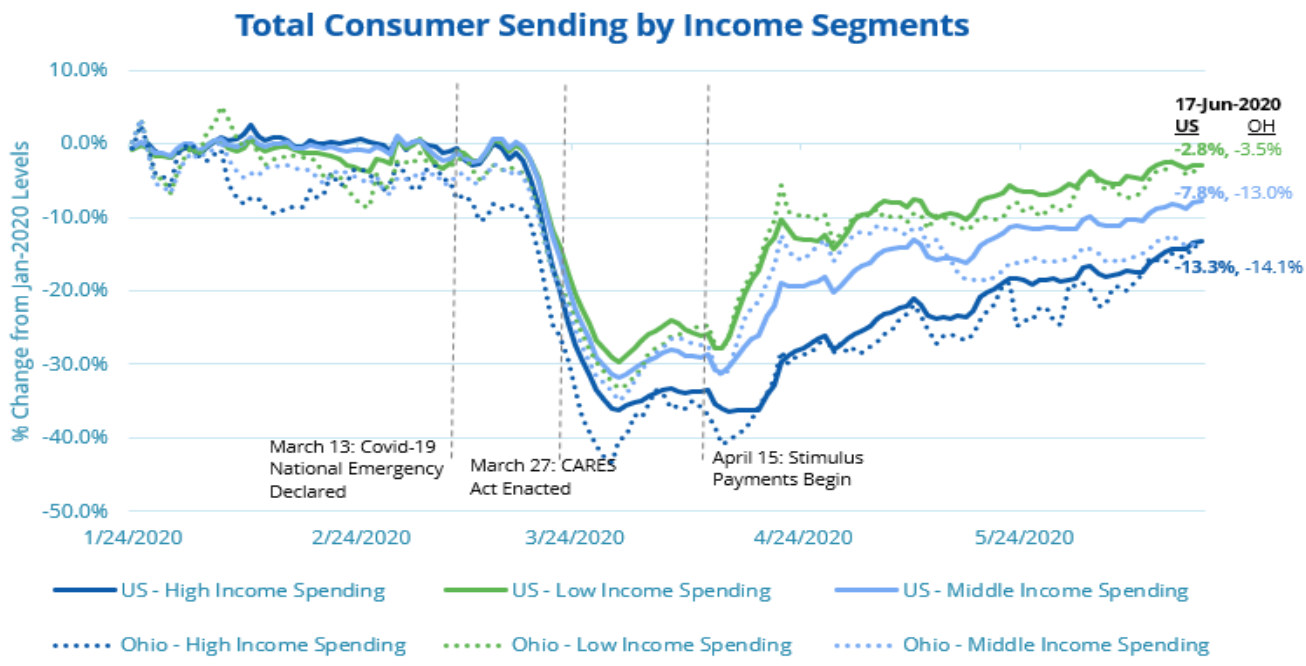
Source: "How Did COVID-19 and Stabilization Policies Affect Spending and Employment? A New Real-Time Economic Tracker Based on Private Sector Data", by Raj Chetty, John Friedman, Nathaniel Hendren, Michael Stepner, and the Opportunity Insights Team. June 2020. Available at: https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

Carl Tippit, CFA
Head of Investments
Clearstead

Aneet Deshpande, CFA
Chief Strategist
Clearstead