

July 6, 2020

**OBSERVATIONS**

- Covid-19: The 7-day average of cases (48,640 as of 5-July) hit a record high for the 27<sup>th</sup> consecutive day. 239 scientists from 32 countries outline evidence that the novel coronavirus is airborne – the research will be published next week in hopes to push the WHO to revise recommendations in combatting the virus.<sup>1</sup>
- Chinese manufacturing activity registered 50.9 in June, indicating expansion.<sup>2</sup>
- National home prices have risen nearly 4% YoY. The top 4 cities YoY price changes: Phoenix (+8.82%), Seattle (+7.30%), Minneapolis (+6.36%), **Cleveland (+5.99%)**.<sup>3</sup> The most recent mortgage applications data declined for a second straight week – a sign that pent up demand in housing may be slowing.
- Bankruptcies in the retail sector sets a record – 16 retailers have filed for bankruptcy (Chapter 7 or 11) in the first half of this year, the most on record.<sup>2</sup>
- The share of households planning to vacation in a foreign country fell to the lowest level since 1986, according to a survey by the Conference Board. Meanwhile, RV bookings via RVshare (peer-to-peer RV rental company) has increased more than 1,600% since early April.<sup>4</sup>
- For the first time since the crisis began, Warren Buffett's Berkshire Hathaway deployed \$4bn to acquire assets of Dominion Energy, Berkshire still has approximately \$128bn of cash on hand.<sup>2</sup>
- Jobs report: Nonfarm payrolls increased by 4.8 million (vs. expectations of 2.9 million) and the unemployment rate fell to 11.1%.<sup>2</sup>
- CEO outlook for hiring and investing over the coming 6 months declined to its lowest level since Q2 2009. Majority of CEOs said that their businesses would not recover until the end of 2021.<sup>5</sup>
- Extension for the Paycheck Protection Program (PPP) passed both the Senate and House and was signed by President Trump. The measure will extend the PPP thru to 8-Aug.
- Q2 performance: The S&P 500 witnessed its best quarter, +20.5%, since Q4 1998 and its 3<sup>rd</sup> best since 1976.<sup>2</sup>

**EXPECTATIONS**

- China enacted its new National Security Law, which curtails the autonomy of Hong Kong, and made its first arrests under the law last week apprehending protestors demonstrating for Hong Kong's independence. The action adds to the list of issues stoking tension between the US and China that are likely to grow throughout H2-2020.
- While last week's unemployment data was positive, weakness in recent claims data along with a resurgence in closings could create negative surprises in employment statistics going forward.

**ONE MORE THOUGHT**

A significant driver of market performance in H2-2020 will be our success or failure in terms of combatting the coronavirus. Until the global population reaches herd immunity—generally thought of having more than 70% of the population immune to the disease—or if a vaccine becomes available, the global economy will have to contend with the virus's lingering impact on consumer activity, corporate investment, and ultimately risk assets. However, a global race is underway to develop and bring to market a vaccine that will allow us to hopefully move past the disease. Currently, there are over 140 vaccines in some stage of development, according to the World Health

<sup>1</sup> Reuters, NY Times, WaPo, Clinical Infectious Diseases journal, "It is Time to Address Airborne Transmission of Covid-19"

<sup>2</sup> Bloomberg LP

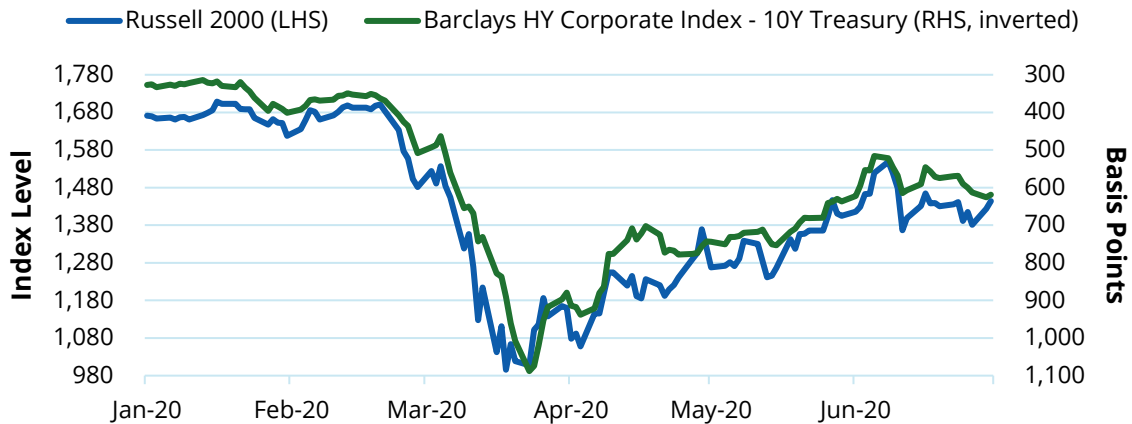
<sup>3</sup> Bloomberg LP, S&P CoreLogic Case-Shiller Unadjusted Prices as of April 2020 – released 30-June

<sup>4</sup> USAToday, RVshare as of 1-July

<sup>5</sup> Business Roundtable Quarterly Economic Survey Outlook

Organization<sup>6</sup>. Four vaccines will be in phase III human clinical trials within the U.S. this summer. Another six vaccines are being tested in clinical trials in China. Australia has three additional vaccines that are undergoing trials with assistance of both U.S. and Chinese pharmaceutical companies. Additional clinical testing is being done in the UK, Germany, South Korea, and Russia. The early results from these clinical trials will begin to be known before the end of the year, and some medical experts have predicted the possibility of identifying an effective vaccine by early next year.<sup>7</sup> While the ultimate timeline for a vaccine may be unclear, there is little doubt that global financial markets will be reacting to any significant advance or setback in the race to find vaccine for this global pandemic.

## GRAPHIC OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 06/30/2020

Since hitting its 2020 low on March 18, the Russell 2000 has rallied 45.0% while the interest rate spread between high yield corporate bonds and 10-year Treasuries has contracted by 271 basis points. Falling high yield interest rates have allayed investors' concerns about small cap companies, which often access debt financing through high yield instruments. If spreads between high yield bonds and Treasuries stabilize at current levels or contract further, small caps could continue to outpace their large cap counterparts.



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<sup>6</sup> "Draft landscape of COVID-19 candidate vaccines", WHO 29-Jun-2020

<sup>7</sup> Dr. Anthony Fauci, Director NIH, Public Testimony – House Energy & Commerce Committee, 23-Jun-2020