June 5, 2020

Capital market highlights: Strong data keeps the glass half-full

Summary highlights:

- Today's economic data added to positive momentum in the U.S. and global economy's improvement
- Asset prices, which have moved swiftly in recent weeks, continue their ascendency
- While we remain positive and optimistic about the investment landscape, we encourage clients to stay centered on their financial plan

The current capital market environment remains news-heavy, and today investors are digesting encouraging employment statistics out of the U.S. At 8:30 am Eastern Time, the Bureau of Labor Statistics announced that payrolls increased by 2.5 million in May, following declines of over 20.7 million jobs in April. Further, economists expected payrolls to decline by 7.5 million, so the results caught market participants by surprise. In fact, today marked the largest economist forecast projection miss on this monthly data set in 27 years, according to Bloomberg data. Global stocks and traditionally riskier asset classes rose sharply, and bonds moved modestly lower.

We are encouraged by today's news not just for economic considerations but most importantly for those adversely impacted by recent events. Applauding a 13.3 percent unemployment rate may seem unusual given long-term employment trends where domestic unemployment spikes above 8 percent have only occurred in one other period in the last 35 years. However, the COVID-19 environment has resulted in many unusual phenomena. Some will argue this data is volatile and historically subject to revision (both true statements), but we note that our neighbors to the north, Canada, exhibited a similar phenomenon; following two straight months of record losses, the Canadian economy added just under 300,000 jobs as well in May. Taken in concert with other country and regional data indicating that economic activity is picking up following reopening, today's employment report is a positive development.

Within the jobs report itself, we note the following points:

- Rehiring is occurring in the hardest-hit segments; the report noted significant job increases in retail, food service and hospitality employment from subdued levels
- Healthcare trends remain strong
- Average weekly hours worked jumped to the highest on record, which can precede new hiring as companies first stretch their current workforce before ultimately adding more personnel

Muddle-through economy remains as the recovery continues, although risks remain

Contextualizing today's news within the global economic and policy mosaic, market optimism appears justified. While maintaining an apolitical view on policy and recognizing implementation challenges, U.S. Federal Reserve actions improved financial marketing functioning, the CARES Act and follow on legislation provided liquidity opportunities for companies and individuals, and recent actions by the European Central Bank and the German government reflect policies that in the short term will help bridge economies from the immediate post-pandemic horizon to a future one. Companies have access to capital and are hiring, consumers are transitioning to more normal life activities, and the medical concept of gradual improvement and repair over time, homeostasis, continues.

Risks certainly remain. First, virus resurgence is a significant unknown; while coronavirus-related scientific understanding and medical advancements continue, we do not have a definitive cure or widely available vaccine. As social distancing measures relax, the virus' path could change, resulting in a resurgence in case growth. Second, while most global equity markets are below where they started this year, recent performance has been extremely positive, almost torrid. Markets are forward-discounting mechanisms, meaning prices today extrapolate what the market deems to be the most likely future path. While the mosaic described earlier suggests a more positive future, the risks of ebbs and flows with companies, consumers, and the eventual stimulus withdrawals could make today's excitement overdone. With those risks in mind, we continue to lean towards a glass half-full outlook.

Stay focused on your plan

So what does this mean to you as a client? As we have stated throughout our conversations and communications, the most powerful thing you can have is a financial plan and an active dialogue with your wealth professional. Working with your U.S. Bank team, determining the right asset mix and plan for your unique situation remains job number one. Whether we are at all-time high levels in many stock measures in late February or at multi-year lows like we were just five weeks later, investors who center on a well-defined financial plan can weather volatility and work in concert with their lifestyle. As we have said often, living and investing within your means is critical, and today's data does not alter the need for a plan or the need to remain within your means.

Within our optimistic outlook, we expect to see continued volatility in parts of the market that may have extrapolated a too buoyant future relative to our analysis. Seeing how the economic restart plays out for consumers, businesses, and local governments will be key, and we will retain a global vantagepoint as we evaluate this dynamic landscape.

We will keep you posted on any changes to our views that could affect your specific portfolio. As always, thank you for your trust and do not hesitate if we can help in any way.

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