

Claro Market Insights Do We Have Liftoff?



The launch of two NASA astronauts by [SpaceX](#) this past weekend, the first human spaceflight from U.S. soil in almost a decade, was certainly quite an achievement and a moment of celebration and unity for Americans. It also marked the first time a commercially built spacecraft delivered astronauts to the international space station. It goes to show what can be accomplished through the power of human ingenuity, the collaboration of both the public and private sectors and the result of global cooperation as they join another NASA astronaut and two cosmonauts onboard.

Sadly, civil unrest has also dominated the headlines as racial tensions intensified following the death of George Floyd while in police custody. It's a tragedy that clearly should never happen. While there have been mostly peaceful protests, there has also been needless rioting and looting across major U.S. cities. Hopefully local leaders, government officials, law enforcement and people of all ethnicities and race can come together peacefully and quickly to find some resolution.

Meanwhile, U.S. and China friction has intensified even further as China imposed a [national-security law](#) on Hong Kong to "prevent and punish conduct that seriously endangers national security including separatism, subversion of state power, terrorism and activities by foreign and overseas forces that interfere in Hong Kong affairs." This prompted Secretary of State Michael Pompeo to issue a [statement condemning the law](#) and suggesting that the U.S. has no longer has "any basis" to view Hong Kong as autonomous or to treat it any differently than mainland China, which could include imposing sanctions and tariffs. The continued and escalating feud between the U.S. and China certainly remains an unknown variable to a potential economic global recovery.

All this has taken away from the reopening of the U.S. economy from the Covid-19 pandemic shutdown. As states and cities are now relaxing the preventive measures taken to curb the spread of the virus, businesses and consumers are trying to regain some of their prior level of activity. At this point, while there is a lot of pent-up demand, it may prove to be a more gradual return as some consumers will remain cautious and businesses may be too debilitated to function as before, at least right away. In addition, with the other distractions of racial and geopolitical tensions, there may prove to be too many divides to bridge before we can truly move forward again.

Despite the recent unease, the month of May proved to be another strong recovery month for equities as investors started to look ahead to growth post the coronavirus outbreak. The recovery was again led by the **Nasdaq** which advanced 6.8% for the month powered by the healthcare and technology sectors. The index even turned positive for 2020. The **S&P 500** and **Dow Industrials** also rose by 4.5% and 4.3% each, although both are still down for the year by -6% and -11% respectively. Smaller companies, as measured by the **Russell 2000**, got a further boost recovering 6.5% and are now off -16% for 2020.

International and **Emerging Markets** trailed a bit, but also advanced 4.1% and 0.6% respectively and are now down -15.3% and -16.5% year-to-date.¹

For bond investors, May was a month of improved stability as the Federal Reserve made good on its promise to support the credit markets. Treasury issuance was also robust and [corporate debt](#) showed strong demand as more companies tapped the debt markets to shore up capital. Municipal debt recovered 3.2% as the Federal Reserve updated the terms to its [Municipal Lending Facility](#) giving investors' confidence that states and municipalities would be able to manage cash flow stresses caused by the shutdown.

Financial Market Data	May	May	Q2	2020	1 Year
	Closing Price	Monthly	Quarter	YTD	Return
U.S. Stock Markets					
S&P 500 Index Price	\$ 3,044.31	4.5%	17.8%	-5.8%	10.6%
Dow Jones Industrials	\$ 25,383.11	4.3%	15.8%	-11.0%	2.3%
NASDAQ Composite	\$ 9,489.87	6.8%	23.2%	5.8%	27.3%
Russell 2000 Index	\$ 1,394.04	6.5%	21.1%	-16.0%	-4.9%
International Stock Markets	Closing Price				
MSCI EAFE Index	\$ 1,725.09	4.1%	10.6%	-15.3%	-5.1%
MSCI Emerging Markets Index	\$ 930.35	0.6%	9.6%	-16.5%	-6.8%
U.S. Fixed Income	Closing Price				
90 Day T-Bill	\$ 203.18	0.0%	0.0%	0.5%	1.7%
Barclays Aggregate Index	\$ 2,346.72	0.5%	2.2%	5.5%	9.4%
Barclays Municipal Index	\$ 1,287.37	3.2%	1.9%	1.2%	4.0%
	Closing Price				
Gold	\$ 1,731.64	1.7%	7.6%	14.3%	33.7%
Oil (WTI Spot)	\$ 35.49	88.4%	73.0%	-42.0%	-33.7%
Bitcoin	\$ 9,587.53	8.6%	43.9%	33.3%	12.1%

Stimulus vs Shutdown

The stock market has marched upwards supported by both [monetary](#) and [fiscal](#) support. With the spread of the virus subsiding and the hope of a vaccine by late 2020 or early 2021, investors have secured some measure of confidence that the economy will be able to regain its footing and that company earnings will only be briefly impaired. They have embraced the "Don't Fight the Fed" mentality and bought equities with the reassurance that both the Federal Reserve and the federal government will backstop asset prices, including those considered somewhat risky. The Fed recently disclosed its purchases of \$1.3 billion of [bond ETFs](#) which included more than \$200 million below investment grade. But one has to wonder if it will be enough considering the amount of economic damage that will result from the Covid-19 shutdown, both in the short-term and for longer.

For instance, it remains to be seen how quickly the historical number of unemployed can return to work and if there are more permanent job losses than expected. While the number of [continuing claims](#) of those seeking unemployment insurance fell from an unprecedented 25 million to 21 million in mid-May, that number is still quite astounding considering the prior high was just 6.5 million in 2009 and was recently as low as 1.75 million at the end of 2019. It will be interesting to see where the employment situation stands when claims are reported later this week and the payroll report is issued on Friday. While a quick recovery depends on getting people back to work, a slower ramp-up could curb consumer spending and dampen the economic recovery.

¹ <https://ycharts.com/indices>

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Another concern is that the recovery has been led by sectors that have been more immune from the shutdown (healthcare, technology, consumer staples), while some specific industries (such as restaurants, travel, retail, energy and financials) have struggled. For the economy to fully recover, investors will need to have confidence that the situation has improved for those other sectors and industries as well.

Looking Ahead

It is often said that markets are forward looking. If that's the case, then they are currently anticipating a very quick recovery for the economy. But just how far ahead is the view? According to [FactSet](#), analysts are forecasting that profits will regain their peak 2019 level by the end of 2021. While that sounds reassuring, it might be a bit optimistic considering [corporate profits](#) fell -20% in the first quarter this year and are expected to stage a much steeper decline in quarter two, before rebounding during the second half of the year. The expectation that profits will recover both quickly and robustly has propelled markets. And with monetary and government stimulus at the ready, the fear of a continued downturn is less likely to materialize. So, although the economic carnage has yet to be fully measured, it is encouraging for investors to look ahead to better times.

The Bottom Line

No one doubts that this is an uncertain and difficult period and that the path ahead will be more than challenging. Yet our nation, and its people as a whole have seen many such challenges through the years and have overcome each one. So, the question really is not if we can recover, but rather how quickly, how strongly, and how we do it together. There are clearly many obstacles in the way, including overcoming our social and geopolitical differences. And if there are additional setbacks it might take even longer than the financial markets are currently anticipating. But overall there is a lot to look forward to as a nation and as an economy as we liftoff to the next frontier.

In the meantime, we wish everyone continued good health and safety. Please check in and update us on how you are doing and if you need anything. Wishing you and your families all the best!

Michael Mullin, CFA™
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