Weekly Market Insights

April 6, 2020

Coronavirus, Employment, the Market and there is still an election looming

The lead word of our title is "coronavirus" for a very good reason. The financial markets are almost solely fixated on the virus' progress. The equity markets continued to be volatile and show weakness at any provocation. Investors indicated some ability to rally when the President announced there was an agreement between the Saudis and Russians to end their dispute, allowing the price of oil to rise. Both the price of oil and the stock market rose. Unfortunately, both sides denied it and both the market and oil fell. The week ended with the Dow -2.70%, the S&P at a-2.08% and NASDAQ at -1.72%.

The Economy

The economy, as expected, is slowing rapidly. Investors and analysts are focusing on employment numbers, or, more accurately, unemployment numbers. As we have written in the past, employment is a huge factor in consumer confidence. It is also an indicator of economic activity in general, and, true to form, manufacturing is also showing weakness. One of the dangers the economy is facing is a downward spiral. As employment and consumer confidence falls, consumers spend less. As they spend less, there are more layoffs, and so on. So what can be done? Of course, ending the pandemic would do the trick, but no one knows when that will be.

The Administration, Congress and the Federal Reserve have begun or announced programs to combat the recession. The Federal Reserve was the first to act, and we have covered this in earlier papers. In a nutshell, they have added an unprecedented amount of liquidity into the economy. Their job is done. The Administration and the President have initiated the largest fiscal policy plan in history. We agree that this plan can go a long way in relieving the pain of this recession. What remains is to see how quickly they can put the program to work. Speed is important here. If it is done quickly and efficiently, it will put money into the hands of both consumers and businesses. That alone will not end the recession, but it will do a lot to restore confidence and keep consumers and businesses afloat. But, the program must go into effect very soon, getting funds into the hands of those who need it.

The Forgotten Election

The election, understandably, has fallen into the background, but it shouldn't. One of our favorite political analysts groups, UVA Center for Politics, just published their latest research. Previous to the coronavirus onslaught, they placed the odds of the President being reelected at 50-50. They have now reduced those odds, but not to a serious degree. They also feel the odds, although still favoring the Senate to remain in Republican hands, are lower now, particularly the chance of Rep. Gabrielle Giffords (D-AZ) beating Martha McSally, the appointed current Senator from Arizona.

The biggest winners in handling the crisis are governors and state legislators. They have clearly been the most active, and, in the public's mind, most successful in fighting the pandemic.

Sahm Indicator Update

When we last provided readers with an update on the Sahm Indicator,[1] the U.S. economy was in an incredibly strong position, enjoying a strong labor market, diminished trade tensions with China, and a continuation of the nearly 11-year bull market. Unsurprisingly, the Sahm Indicator sat at a reading of 0.0— far from the 0.5 recession-indicating level, and, according to Sahm's research, pointed to just a 20% probability of a recession occurring in 2020. The arrival of the global pandemic has made the economic environment of just a few weeks ago seem like a distant memory. The near complete shutdown of the U.S. economy has led to mass layoffs and back-to-back weeks of record-setting

filings for unemployment insurance claims. As was to be expected, Friday's employment report indicated a dramatic decrease in non-farm payrolls and a corresponding increase in the unemployment rate to 4.4% from February's 3.5% reading.

The Sahm Indicator increased to 0.3 from 0.0 following Friday's release. With 0.5 indicating a recession, it may seem surprising that we have not already surpassed that level. Unfortunately, the indicator is only as good as the data it uses, and Friday's unemployment number fails to fully capture the millions of people who filed for unemployment insurance in the latter half of March. Claudia Sahm developed her indicator with the intention of finding a way to identify recessions earlier than conventional methods, and, historically, it has done a reasonably good job of this. However, the speed of the current downturn is unprecedented, and the lag time that typically occurs before economic impacts are realized has been nonexistent. So, the Sahm Indicator, along with all other leading indicators for that matter, will lag the current economic developments and serve to confirm the recession rather than predict it.

To give readers an indication of what to expect next month, projections for April's unemployment rate cited in a Friday article in the *Wall Street Journal* range anywhere from 10-16%.[2] At 10%, the lower end of this range, the Sahm Indicator would jump to 2.4—shattering the 0.5 recession-indicating threshold and essentially guarantee we are in the midst of a recession. While the magnitude of the jump may be surprising, its interpretation should not. As we have stated, the United States is almost certainly in or soon to be in a recession, and we expect Sahm's indicator to confirm this.

[1]The Sahm Indicator is the difference between the U-3 unemployment rate (in the form of its three-month average) and the minimum unemployment rate from the previous 12 months. When the three-month average is at least 0.50 percentage points above its minimum, the economy is already in a recession.
[2]Morath, Eric, "U.S. Employers Cut 701,000 Jobs in March," *The Wall Street Journal*, (April 3, 2020).

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Please click here for the Economic Release Calendar - April 2020.

For a review of our **Investment Review & Outlook - April 2020**, please click here.