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Weekly Market Insights

June 8, 2020

A week of contradictions

This past week, the equity market continued its remarkable path upward. In the midst of fighting a damaging pandemic, racial and political strife, and global economic weakness, U.S. markets forged ahead. The Dow industrials gained 6.81%, the S&P 500 rose 4.91% and the NASDAQ increased 3.42%. Granted, the extraordinary gains came from a broadening number of stocks, but the gains are still remarkable and curious. One of the reasons was the surprising economic reports from Washington. My colleague, Ryan Schutte, has broken down these releases in the next section.

Economics

U.S. economic releases turned a corner last week, with the economy showing unexpected signs of life as the country continues its gradual economic reopening process. Labor market news was particularly upbeat, with Friday's jobs report from the Bureau of Labor Statistics beating expectations handily. The unemployment rate fell to 13.3% in May from April's 14.7%, and came in well-below consensus expectations of 19.6%. Beyond the headline unemployment number, the labor force and the labor force participation rate both increased, while the U-6 rate[1] improved as well. The economy added 2.5 million jobs over the course of the month, indicating a sharp rebound from last month's payroll decline of 21 million. The largest gains were in the leisure and hospitality industry, with education, retail, and health care experiencing substantial increases as well. Add in an uptick in the average hourly workweek and a decline in both initial jobless claims and continuing claims growth, and it was a positive week for the labor force, indeed. This sharp reversal likely indicates that the worst has passed and that we are on our way to recovery. The pace of the recovery is still in question, however, and there are some important details to pay attention to on this front.

One blemish in the employment report and something to watch closely going forward is the number of permanent job losers. This number continued to climb higher in May, up 295 thousand over the month to 2.3 million total. If this number continues to increase, it would reveal that more of the job losses initially thought to be temporary have turned permanent and will make the path to pre-pandemic employment levels much more challenging. Furthermore, despite May's employment advance, achieving sustained job growth in the weeks and months ahead may be more difficult. A recent Wall Street Journal article suggests that more than half of those laid off during the pandemic are making more than they did at their previous jobs through stimulus checks and expanded unemployment benefits.[2] This not only makes it more difficult for employers to lure people back to their old jobs, but may discourage Congress from passing further economic relief packages.

While last week's economic releases certainly offered a refreshing turnaround from the abysmal reports seen in weeks prior, it is important to remember that everything is going to look great when focusing solely on the short-term. Instead, take a step back and evaluate using a broader scope. Keep in mind, the unemployment rate is still at historic highs unseen since World War II, and there is a long way to go before the U.S. gets back to pre-pandemic levels. 15.2 million jobs have been lost since February while the U.S. economy added just 2.3 million jobs in the entirety of 2019.[3] The economy looks to be on the uptrend, but there is certainly a long and tenuous road ahead.

Weekly Market Insights (cont'd)

A View from Abroad

It is hard to believe the United States has replaced China in the headlines, at least for the moment, on issues of civil rights. It is true that many look for reasons to take shots at the U.S., and, in reality, there is a huge difference in what is happening. The most damaging, at least from the views abroad, is the official response. The United States, since its beginning, has been viewed as the bastion of liberty. Certainly, we remain in the vanguard, but the current political rhetoric is indeed disconcerting to the rest of the world. Economically and in most all measures of positive nationhood, the U.S. remains on top, but our reputation is being tarnished, and that hurts the country's ability to influence the world.

The E.U.

We wrote last week about the European Union. Our view was that added monetary stimulus is certainly a positive, but it is not the step that will change Europe's slow growth. They need a powerful injection of fiscal policy. To add fuel to the fire, Johannes Hahn, the E.U. budget chief, is proposing a new business tax to pay for any new stimulus. There may be many reasons to raise taxes on business, but it seems not the best of plans to raise taxes on those who create jobs, when a country is suffering from low growth and high unemployment.

This has done nothing to change our view that Europe will trail the U.S., and perhaps China, out of the recession.

[1] U-6 unemployment rate includes discouraged workers and those working part-time for economic reasons.
[2] "U.S. Unemployment Rate Fell to 13.3% in May," Wall Street Journal, June 5, 2020, https://www.wsj.com/articles/may-jobs-report-coronavirus-2020-11591310177?mod=hp_lead_pos1.
[3] "The Employment Situation—May 2020," Bureau of Labor Statistics, June 5, 2020, https://www.bls.gov/news.release/pdf/empsit.pdf https://www.bls.gov/news.release/pdf/empsit.pdf.

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Please click here for the updated Economic Release Calendar - June 2020.