At Passage Wealth it is important to us that you are well informed about what's happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

Heading – Previous Confirmations and Forward Expectations

What's going on? When the coronavirus first caused global shutdowns, everyone knew there was historic economic damage occurring across the globe. Reports such as the US weekly initial jobless claims provided a glimpse into what was happening, as the largest number of workers reported a job loss than any other period on record (1). Still, the report is often revised and leaves much to be satisfied when it comes to understanding the economy. In finance speak, reports like the US weekly jobless claims are *lagging indicators* as they give us a way to measure the magnitude of what has already happened. Commonly known reports such as US GDP growth are also lagging indicators. The stock market is viewed as a *leading indicator*. For example, when someone says that the stock market already has something "priced in," they are referring to how current prices have a high degree of expectations attached to them. Expectations are created with leading indicators and confirmed with lagging ones. For that reason, the stock market can fall and recover faster than the economy can. While the California Governor, Gavin Newsom, issued the very first stay-at-home order on March 19th, the S&P 500 hit its current low point of the year only two trading days later on March 23rd.

Why is it important? We have entered a new phase of the economy and the stock market. During the previous phase, data was not as comprehensive, and expectations of future events ranged widely. Now that more coronavirus focused economic data has become available, many expectations that investors previously held have either been confirmed or adjusted while their future ones are continuously created. In addition to economic data, we now have a clearer picture of how aggressive monetary and fiscal policy authorities will act in response to the pandemic. Currently, more than $6 trillion has been deployed by both the Federal Reserve and legislative representatives, with no sign of slowing. Further, interest rates have been reduced by central banks around the globe, and additional measures have been taken to ensure debt markets run efficiently.

What do we think about its potential impact? Investing has always been known to be a psychologically difficult task. However, the current period may be one of the most difficult ever. Over the past four weeks, the US stock market has surprised many by rallying on the same days in which US unemployment numbers were reported in the millions (2). In the coming weeks, we could continue to see similar behavior from the markets where historic bad news does not translate to down days. When those instances occur, it is usually due to the information already being anticipated and reflected in current prices.

The month ahead: As the US and the rest of the world has moved past the initial shock of the coronavirus and has begun to focus on reopening their economies, a new set of obstacles have emerged. How quickly and at what capacity will supply chains be restored? Have we come closer to developing an “antidote” to the virus? Are the number of cases continuing to trend downward? Are the jobs that have been lost being restored? How long can businesses sustain the shutdown? Will there be additional stimulus measures taken by US legislators? If so, how much? Although we do not have answers to these questions at this time, we hope to gain additional clarity over the next month.

The bottom line: We do not have the technical data of two consecutive quarters of declining GDP growth to confirm that the US is currently in a recession. However, there is a near 100% probability that is the case. The US consumer represents two-thirds of the total US economy. If the consumer is delayed from returning to their previous activities, then additional portions of the economy will continue to contract. In response, more stimulus dollars will need to be deployed. Those are the two biggest variables right now, consumer behavior and the relief in response. Although many unknowns have been answered over the past month, new obstacles have arrived with their own set of unknowns. Our rules-based investment strategies are designed to remove the difficulties of managing wealth during unknown times as they utilize leading and lagging components of both market and economic risk to determine their positioning. We remain optimistic about the US economy and look forward to a safe and prosperous future. As we tread on our path back to that place, we will continue to monitor information as it arises and keep you informed of any changes that may impact your investments.

1 - https://www.forbes.com/sites/sergeiklebnikov/2020/04/02/stocks-rally-despite-weekly-jobless-claims-surging-to-66-million/#70dabb382570

2- https://twitter.com/HeliosQR/status/1253469474302226432

Source: Helios Quantitative