June 2020 Market Commentary

At **Passage Wealth,** it is important to us that you are well informed about what's happening in the markets. As of June 22, 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.

Since our last update, the Fed has continued to support the economy through a growing number of actions and promises. At the June Fed meeting, interest rates were left near zero as an expectation of a full-year decline in economic output to be between 4% and 10% would require such low rates. In addition, the Fed expects unemployment will remain stubbornly high, around 9% to 10%. Equity markets initially responded well to the Fed announcement, but shortly began to roil. On June 11th, the S&P 500 Index fell 5.89% on renewed COVID-19 resurgence fears, and the Fed confirming the economy may take longer than expected to recover.

Luckily, equity markets have largely risen since June 11th as investors continue to bet the Fed intervention will overcome the economic pressures of COVID-19. Many investors feel there is too large of a disconnect between the performance of equity markets and the state of the economy – and we would agree – but it is important to remember this is a rather short period of time. We do not expect the disconnect to continue forever. We expect the economy will either improve to justify the market levels, or the markets will fall to reflect the economic headwinds. Here are a few interesting pieces of data that illustrates that point:

- Consumer sentiment increased by the most since 2016 as jobs are coming back, and states are reopening. The preliminary June figures rose 6.6 points to 78.9, beating estimates of 75. While still below pre-COVID-19 levels, the upward movement is welcomed, despite 67% of respondents harboring concerns around a resurgence of COVID-19 and job market weakness. Where the US consumer goes, so goes the US economy.

- Manufacturing data is still deeply in trouble at 43.1 (anything below 50 is bad), though it was a slight improvement from April's 41.5 reading. April's final durable goods orders settled at -17.7% while factory orders plunged 13%. This is among the ugliest data out there.

- The unemployment rate unexpectedly fell to 13.3% (14.7% previously), with a 2.5M increase in nonfarm payrolls. Consensus expectations were for a 7.5M decrease in payrolls, which would have pushed the unemployment rate to around 19%. The unexpected turn, especially with the background of high weekly unemployment claims, prompted some to say the economy may have turned the corner earlier than anticipated as workers returned to their jobs following states and countries beginning to reopen their economies. Others say unemployment is still ridiculously high and will only improve slightly from here in 2020.

- Across the pond, the UK economy fell by the most on record in the first full month of lockdown, shrinking 20.4% in April, 10x worse than the worst pre-COVID fall, and worse than the 18.4% expectation. We expect international equity markets to continue to have the same issues as the US.

What's next: Economic data continues to trickle in every day that helps clarify the direction of the economy and its rate of change. This some of the key data that is needed to determine appropriate positioning in long-run investment portfolios. Our largest concern is the resurgence of COVID-19 in many large economic states such as Texas and California. The longer COVID-19 remains the more pressure mounts on the economy. For now, investors believe the Fed will simply keep pumping stimulus into "the system," but we are not convinced the Fed can support the economy forever.

Bottom line: Overall, we continue to be very cautious investors. While some portions of a portfolio continue to hold stocks, we believe the unknowns at these market levels warrant patience and an overweight position to defensive asset classes such as bonds.

(1) https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20200610.pdf
(2) https://finance.yahoo.com/news/stock-market-news-live-june-11-2020-222011316.html
(3) http://www.sca.isr.umich.edu/
(4) https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1
(5) https://www.bls.gov/news.release/pdf/empsit.pdf
(6) https://www.whitehouse.gov/articles/trouncing-expectations-10-million-jobs-labor-markets-comeback-begun/
(7) https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/april2020

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