



*In this month's recap: stocks rallied in May, sparked by a supportive Federal Reserve, stories of states re-opening, and reported progress on a COVID-19 vaccine.*

# Monthly Economic Update

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*Presented by Richard Muncaster AIF®, LUTCF®, June 2020*

## U.S. Markets

Stocks rallied in May, sparked by a supportive Federal Reserve, stories of states re-opening, and reported progress on a COVID-19 vaccine.

The Dow Jones Industrial Average rose 4.2%, while the Standard & Poor's 500 Index picked up 4.5%. The NASDAQ Composite led, gaining 6.7%.<sup>1</sup>

## Shift in Focus

April's positive momentum continued into May, as stocks registered healthy gains, and investors looked to future economic hopes rather than current woes.

Further aiding stocks was a better-than-expected jobs report and firming oil prices. Many investors breathed a sigh of relief on the news that U.S. and Chinese negotiators were planning to meet, despite the rising tensions between the two nations.

## Fed's Commitment

Stocks rallied, as hopes for a COVID-19 vaccine rose, and the Federal Reserve restated its commitment to do whatever would be necessary to support an economic recovery.

Following Memorial Day weekend, stocks surged, once again, due to rising optimism over economic re-opening, reported declines in new COVID-19 cases, and further news surrounding the development of a potential vaccine.



## Sector Scorecard

The majority of industry sectors moved higher in May, with increases in Communication Services (+11.54%), Consumer Discretionary (+7.79%), Energy (+7.63%) Financials (+4.23%), Health Care (+2.26%), Industrials (+5.93%), Materials (+6.33%), Real Estate (+2.29%), Technology (+9.69%), and Utilities (+0.14%). Consumer Staples experienced a small loss (-0.07%).<sup>2</sup>

## What Investors May Be Talking About in June

In some sense, many investors believe a sustained and complete economic recovery may rest upon developing a vaccine for COVID-19.

## Vaccine Watch

The World Health Organization reports that there are more than 100 vaccine candidates, with 10 currently participating in clinical trials.<sup>3</sup>

Over the next couple months, results from several of these trials may be released.<sup>4,5</sup>

Depending on the results, the trials could provide the markets with a sense of optimism. If they prove disappointing, investors may dread the prospect of a prolonged economic recovery. Either way, many investors are cautiously monitoring the situation for further developments.

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### TIP OF THE MONTH



*Updating your will is as important as having one. If you drafted a will years ago, it may likely need some adjustments. Revisit your will often and keep it up to date.*

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## World Markets



World markets posted solid gains on economic recovery hopes, with the MSCI-EAFE Index rising 5.15%.<sup>6</sup>

European markets moved higher, with gains in France, Germany, and the Netherlands. The U.K. slipped 0.88%.<sup>7</sup>

Pacific Rim stocks were mixed, with advances in Australia (+5.37%) and Japan (+8.34%). Hong Kong dropped 6.83% due to China-related tensions. The volatile Merval Index, which tracks the largest companies based in Argentina, jumped 48.04%.<sup>8</sup>

## Indicators

**Gross Domestic Product:** The economy shrunk at a 5.0% annual rate, higher than the initial estimate of 4.8%.<sup>9</sup>

**Employment:** The unemployment rate leaped to 14.7%, as nonfarm payrolls fell by 20.5 million. The unemployment rate was the highest seen since the Great Depression.<sup>10</sup>

**Retail Sales:** Retail sales plunged by 16.4%, with every sector lower except for non-store retailers, which are predominately Internet-based merchants.<sup>11</sup>

**Industrial Production:** Industrial production fell 11.2%, the largest one-month drop in the index's 100-plus-year history.<sup>12</sup>

**Housing:** Housing starts declined 30.2% to their lowest level seen since 2015.<sup>13</sup>

Existing home sales tumbled 17.8% in April, which was the largest one-month drop since July 2010. The supply of homes declined 19.7%. Tightening inventories led to a new record high in the median home sales price (\$286,800).<sup>14</sup>

Sales of new homes rose 0.6%, a surprise increase amid a consensus forecast of a nearly 22% drop.<sup>15</sup>

**Consumer Price Index:** The price of consumer goods posted its largest monthly drop since 2008, falling 0.8% in April. Excluding the more volatile food and energy sectors, core inflation declined 0.4%, the largest monthly drop since 1957.<sup>16</sup>

**Durable Goods Orders:** Orders of long-lasting goods dropped 17.2%, with demand for transportation equipment falling an eye-catching 47.3%.<sup>17</sup>

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QUOTE OF THE MONTH



*“The older I get, the smarter my father seems to get.”*

TIM RUSSERT

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## The Fed

Minutes from the last Federal Open Market Committee meeting reaffirmed a commitment to maintaining a zero interest rate policy until inflation reaches the Fed’s 2% target, and unemployment returns to its pre-COVID-19 level.

The Committee also focused on how they expect to use upcoming meetings to communicate about future policy decisions.

The minutes also reinforced recent comments that the Fed was not inclined to move toward negative rates.<sup>18</sup>

MARKET INDEX	Y-T-D CHANGE	May 2020
DJIA	-11.06%	4.26%
NASDAQ	5.76%	6.75%
S&P 500	-5.77%	4.53%

BOND YIELD	Y-T-D	May 2020
10 YR TREASURY	-1.27%	0.65%

Sources: Yahoo Finance, May 31, 2020

The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed



by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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## THE MONTHLY RIDDLE



*Here's a food riddle. Someone strips away the outside of this food, leaving you free to boil, cook, or grill the inside. (So, what was the "inside" is now an uncovered outside.) You eat the new outside and throw away the inside of that. What food are you eating?*

*LAST MONTH'S RIDDLE: Its teeth are sharp, and its spine is straight. It is not innately vicious, it does not hunt, but to cut things up is definitely its fate. What is it?*

*ANSWER: A saw.*

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