LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

May saw stocks continue the recovery that began in April. Large Cap stocks in the S&P 500 were up 4.8% for the month reducing their year-to-date loss to just -5.0%. Small Cap stocks in the Russell 2000 were up 6.5% in May but are still down -15.9% year-to-date. International stocks in the MSCI EAFE are down -14.3% for the year after a 4.4% gain in May. Emerging markets stocks were up just 0.8% for the month and are down -16.0% on a year-to-date basis. The Barclays US Aggregate Bond Index rose 0.5% for the month bringing its year-to-date return to 5.5%.

As more data became available for the first quarter of 2020 the headline GDP growth rate declined to a contraction of -5.0%. Expectations for 2nd quarter GDP growth have also deteriorated and now stand at an unprecedented estimated decline of -33%. As the restrictions are lifted, analyst expect a robust recovery in the 3rd quarter but after such a deep decline, it will take several more quarters to get back to the GDP level posted at the end of 2019.

Earnings have taken a big hit over the past few months and are getting tougher to estimate with more than a third of S&P 500 companies withdrawing guidance during the current earnings season. The hit to earnings varies widely depending on industry with the worst declines in the Energy, Consumer Discretionary, Industrials and Financial sectors. The best performing sectors have been Utilities, Technology, Healthcare and Consumer Staples.

Unemployment has been one of the most visible characteristics of the economic shutdown. After a sustained period of record low unemployment, tens of millions of Americans were suddenly laid off or furloughed and told to stay home. We now have around 30 million people unemployed. Since the unemployment came because of a government forced shut down, an effort was made to use government funds to make those newly unemployed whole. There is no substitute for a productive workforce but for now programs are keeping many of the unemployed funded. In fact, a study by the University of Chicago shows that 68% of workers who are eligible for unemployment checks are receiving benefits that exceed their lost earnings.

We are beginning to see early signs of recovery as the restrictions are gradually lifted. We are seeing demand for gasoline picking up, credit card transactions increasing, automobile traffic volumes increasing and reservations on Open Table beginning to pick-up. Some of the largest cities are still under lock-down orders and many people in high risk groups are continuing to stay home. Even where restrictions are lifted, social distancing is still required so it will take a long time before life seems normal again.

The Federal Reserve and the government actions are significant and should help to support financial markets and the economy in the short run. Fiscal stimulus passed by Congress has been very significant and rapidly deployed. Our fiscal deficit is expected to be almost 20% of GDP which will be the most it has been since coming out of World War II. In addition, another stimulus package is widely expected in the coming weeks. The resulting increase in debt and expansion of the Fed's balance sheet is likely to result in Treasury bond yields staying below 1% for many years. The Fed Funds rate is effectively zero and likely will be for quite a while.

Markets are likely to remain volatile as news related to the coronavirus, along with the violent riots that erupted over the past weekend, continue to be reported. It is important that investment changes you make at times like this are in-line with your long-term goals and not based on emotions. If you have any questions about your account, please do not hesitate to contact us.

17330 WRIGHT ST, STE 205 | OMAHA, NE 68130 | P: (402) 697-1166 | F: (402) 697-9271
CAMBRIDGEADVISORS.NET