June 26, 2020

The Markets & the Economy - What We're Watching

Key Takeaways from the Week:

- Steady increase in new coronavirus infections in the South and the West raise concerns about a slowing or even reverse reopening plans and potential new lockdown measures
- US economic data this week points to a bounce in economic activity
- Weekly initial jobless claims hold steady and continuing claims trend slightly lower
- Fed acting cautiously with Thursday's move enacting new restrictions on the US banking industry

The health of our country and the health of our economy are inextricably co-dependent and in the forefront this week. States across the US for several weeks now have been slowly reopening, but a recent new rise in coronavirus cases may halt those plans. Some cities and states have been forced to dial back the reopening push and even re-impose containment measures. Businesses are increasingly struggling with the decision to stay open, close back down again, or find some sort of in between. Data suggests consumers are also more hesitant to venture out, and have a fear of longer-lasting damage. This rise in cases didn't hamper the market on Thursday though, with data pointing to a younger median age of those contracting the virus in some states, and therefore shorter recoveries and less hospitalization. Additionally, the latest weekly jobless claims showed initial claims slightly lower than the previous week, but still stubbornly high with June averaging 1.5 million weekly initial claims.[1] Meanwhile, continuing claims fell to 19.5 million for the week trending below the 20 million mark for the first time in two months easing the mind of the market that people are getting back to work albeit at a slow pace.[2]

The status of COVID-19 and its spread remains challenging – the recent surge could dampen the recovery momentum and challenge those expecting a "v" shaped recovery. The alphabet soup of economic recovery options – most notably the v-shape, u-shape, and w-shape – garner the most interest from investors. In aggregate, economic data has come in better than expected, ahead of analysts' expectations and pointing to a pickup in economic activity. This chart illustrates how a broad set of economic data is progressing relative to consensus forecasts of market economists. The positive reading suggests that economic releases have been beating consensus.

Image Source: Business Insider; Citi

Our assessment of the health of our economic recovery today and into the future should include both traditional economic metrics and high frequency data, which is real time, non-traditional data that

---

[1] WSJ

[2] CNBC

captures activity occurring across the country. This type of data helps to show us where activity is recovering and business activity trending higher, as well as uncovering changes in consumer activity to assess the immediate economic impact. Examples include restaurant reservations (Open Table reservations), retail store traffic, airport traffic (TSA data), searches for directions – foot/car directions vs public transport (Apple Mobility data).[3] This helps provide insight into both the pace but also the durability of our recovery. High frequency data will help to recognize changes in activity faster than traditional monthly and quarterly data sets allowing economists to drill down deeper into the finer details of consumer and business activity trends.

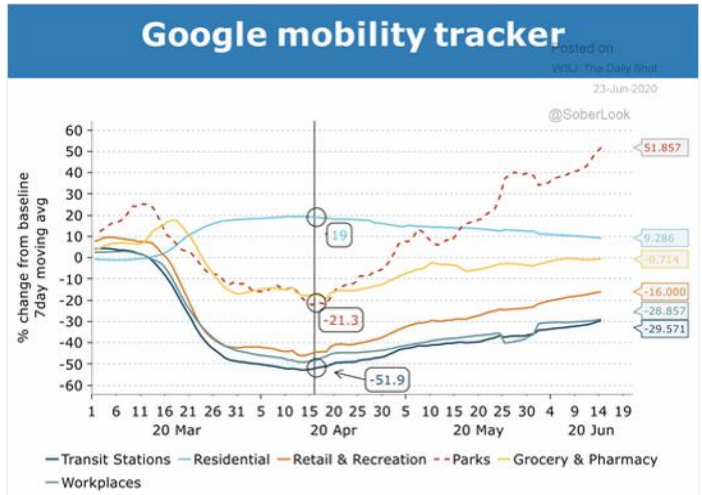

Image Source: Google, Macrobond, ANZ Research

The Fed conducted its annual stress test of banks, which assesses their ability to withstand an economic crisis with a goal of ensuring resilience. In the recent test, they found that several banks could get uncomfortably close to minimum capital levels in scenarios tied to the coronavirus pandemic. The Fed said in a release that big banks will be required to suspend share buybacks and cap dividend payments at their current level for the third quarter of this year. The regulator also said that it would only allow dividends to be paid based on a formula tied to a bank's recent earnings.[4] The outcome of the stress test will not include bank-specific results until Monday.

As our economy appears to be recovering showing improvements from rock bottom levels as businesses reopen, it is unclear how smooth the recovery may be in light of renewed virus concerns, social distancing mandates, and the possibility of pausing the reopening process. We anticipate these uncertainties will translate into further volatility in the markets and uncertainty at least in the short-term. We remain vigilant however, in keeping pace with the markets turbulent moves and focused on our core investment philosophy of providing downside risk protection through broad diversification. The qualitative and quantitative process we employ for security and manager selection translates into a portfolio of high quality companies with strong balance sheets, ample liquidity, enduring business models, and financial flexibility that will allow them to not only survive this difficult economic environment, but also thrive as we come out on the other side.

For questions or more information, please reach out to your Relationship Manager. For additional insights from IMG experts, please visit our website's Stock Market Insights page.

Commentary is reflective as of Thursday's close.

[3] WSJ
[4] CNBC