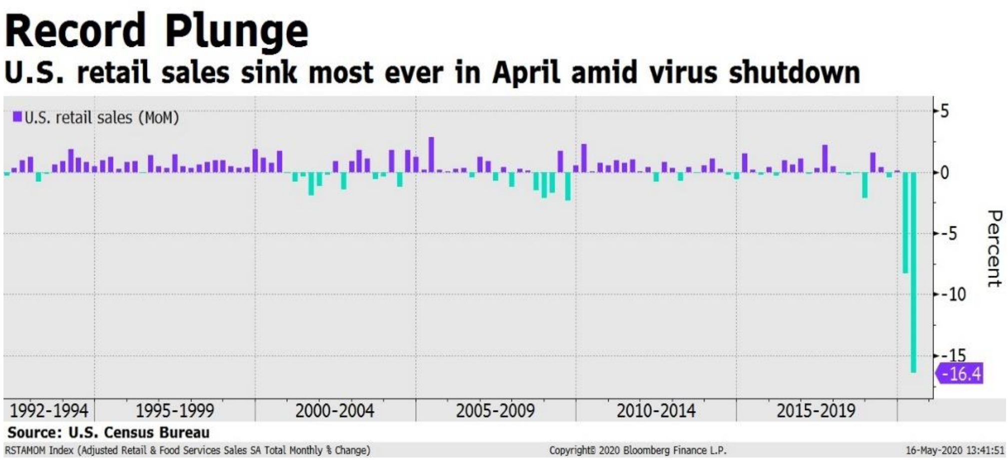
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

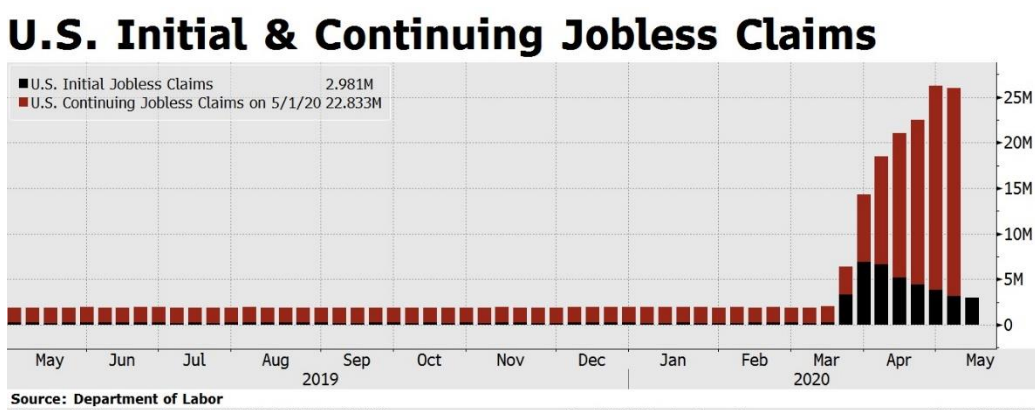
<u>COVID-19 Update – Calling for More (05/15/2020)</u>

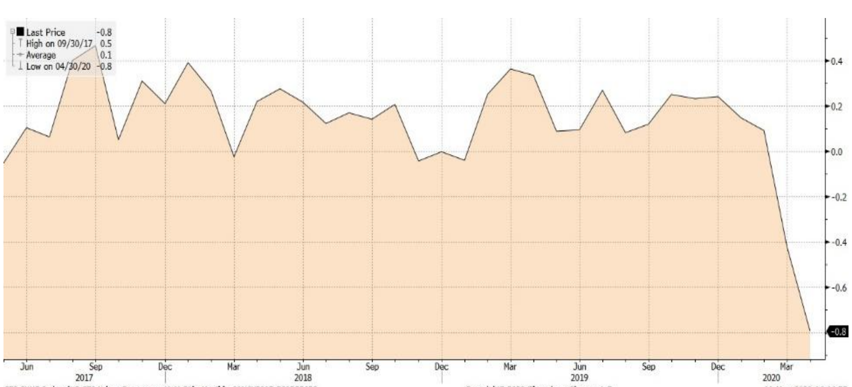
<u>Latest Developments and Economics</u>

More data regarding the state of the U.S. Economy was released recently showing unprecedented, but not unexpected severe declines in activity. The U.S. Industrial Production dropped by 11.2% in April, much of it due to the automobile industry. This resulted in Industrial Capacity at 64.9% - lows not seen since 2009. Retail Sales fell 16.4% - well beyond the 11% or so expected. This drop was particularly hard in areas like clothing, which dropped 90% from earlier this year and food/drink and leisure, both down about 50%.



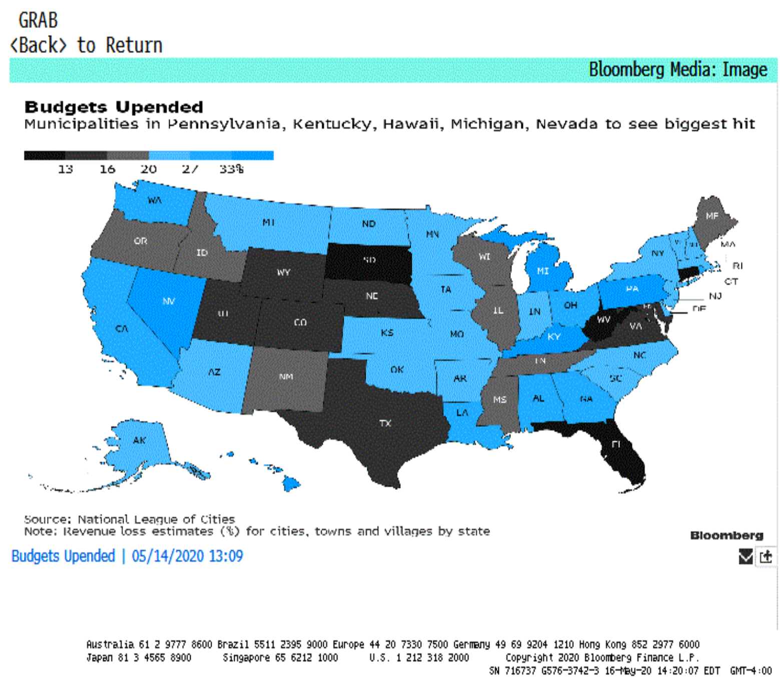
On a positive note, consumer confidence rose slightly – possibly reflecting the arrival of CARES Act payments and unemployment checks. There may also be optimism around the expectation that the downturn is expected to be relatively short as many states start to open. The retail numbers are not too surprising given the restrictions of the shut-down plus the continuing awful unemployment data. This past week the initial numbers continued to retreat but from historic volume. This week another 2.98 million people filed for unemployment, the first sub 3 million number since March 20. This brings the cumulative total to about 36.5 million people since that date. The aggregate effect of this is that continuing claims continue to rise – as you see in the chart there are currently 22.8 million people still on unemployment. The seasonally-adjusted employment data is also impacted by other factors during this time. These numbers may be undercounted by people temporarily out of the labor force and could also be overstated considering about 78% of unemployed workers are on furlough and expect to return to their positions (and thus are only short-term unemployed). The lack of disposable spending funds caused by the lockdowns and unemployment explains the significant drop in retails sales as well as the downstream affect in decreases in prices of goods and services. The Consumer Price Index was also released this week and the readings indicate the general prices fell about 0.8% for the month (see chart). This may not reflect the true picture of consumer experience as the index weighs a basket of goods and services for the measure. Fuel, which





was a big price decline, is not being purchased often by consumers as there isn't much driving right now but, food prices have risen, and people are most likely purchasing more than is represented in the index.

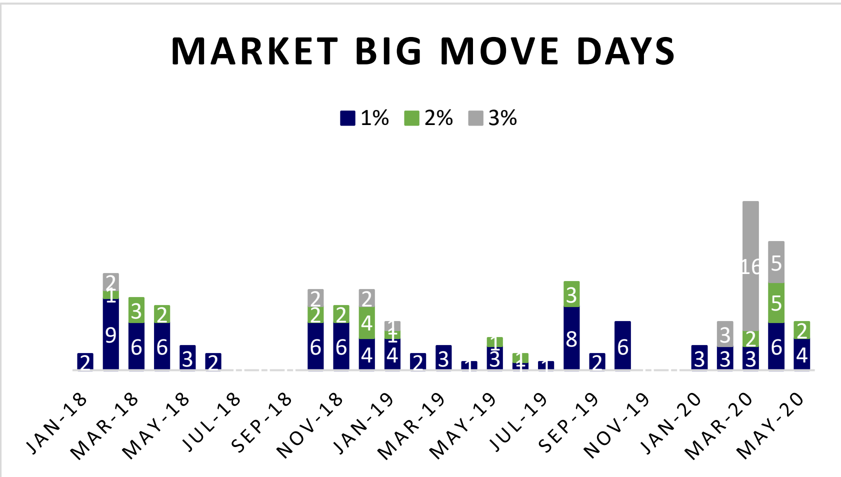
All of this has resulted in the continued monetary programs by the Federal Reserve. The Fed's program of liquidity has relieved the stress in the fixed income markets. Spreads have come down significantly since March. In addition, the Fed is embarking on an extension of liquidity into the credit markets with its Secondary Market Corporate Credit Facility (SMCCF). For the first time ever the SMCCF may purchase in the secondary market corporate bonds issued by investment grade U.S. companies or certain U.S. companies that were investment grade as of March 22, 2020, as well as U.S.-listed exchange-traded funds (ETFs) whose investment objective is to provide broad exposure to the market for U.S. corporate bonds. This is all to prevent a liquidity event from turning into a solvency event.



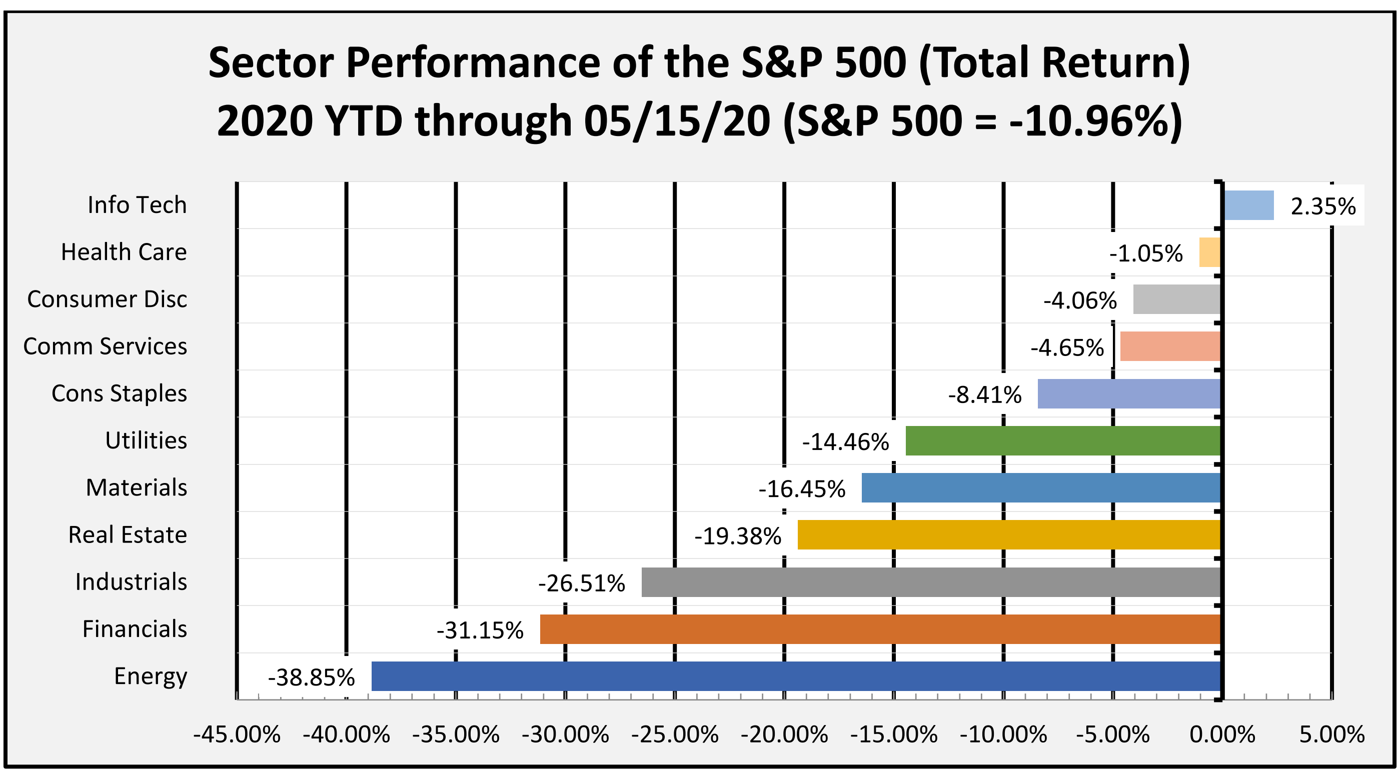
This has drawn calls for an additional expansion of monetary stimulus from Congress. The CARES Act was just implemented on March 27 and was a $2.7 trillion program (detailed in prior updates). The House drafted an additional $3.0 trillion package titled HEROES Act. This 1,800-page bill was narrowly passed by the House late Friday with a vote of 208 For and 199 Against. This went basically along party lines except 14 Democrats voting Against and 1 Republican voting For. The bill looks dead on arrival in the upper chamber due to its size, timing and content. While it addresses issues caused by the virus (State Government Assistance, Hazard Pay for Frontline Workers, Additional Payments to Citizens, Virus Testing, etc.) the opposition contends that it contains many line items that have nothing to do with the current crisis (Student Loan Forgiveness, US Postal Service Assistance, Election Security, etc.) and is opportunistic. Moreover, many legislators feel that the CARES Act hasn't had time to cascade through the economy yet. It is likely that the HEROES Act will be a starting point for negotiating the next stimulus program. The chart above gives an idea of the level of impact of the virus on state budgets due to lost revenue and additional spending.

Financial Markets

The optimism in U.S. financial markets that caused a significant rebound in April got a splash of cold water that brought the markets down a bit this week, including the S&P down 2.2%. Federal Reserve Chairman Jerome Powell made remarks that the economy may need additional help as "the path ahead is both highly uncertain and subject to significant downside risks". There were some other noteworthy players in markets who made similar comments about stock valuation getting ahead of the economics. Even Warren Buffet sold stock in a couple of companies this week! This brought back some volatility, which had been relatively muted as of late. As you can see by the chart May has only had 6 days of moves of 1% or more with 2 of them a 2% move and no days of anything greater. This compares favorably to March and April 'big moves' of 21 and 16 respectively and several of the larger 3% or more variety.



This also does not tell the whole story of the S&P 500 this year so far. The chart below shows the total return of the different sectors of the S&P 500 YTD through May 15. As you can see there is a wide range of returns depending on the type of company. In addition, you can see that there is only one positive sector for the year, Information Technology and everyone else is down. With all this red and 6 of the 11 sectors with double digit losses you may wonder how the S&P is only measuring a loss of less than 11% in total for the year. This is a result of the weight of each sector in the index. Information Technology is the largest sector at about 25% and Health Care is next at about 15%. They are also the top performing sectors this year and, at a combined 40% of the entire S&P 500, are the heavyweights when it comes to their impact on the index. Conversely, Energy, Utilities, Real Estate and Materials, some of the poorer performers YTD, <u>COMBINED</u> only comprise less than 12% of the entire index so their impact is marginal.



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