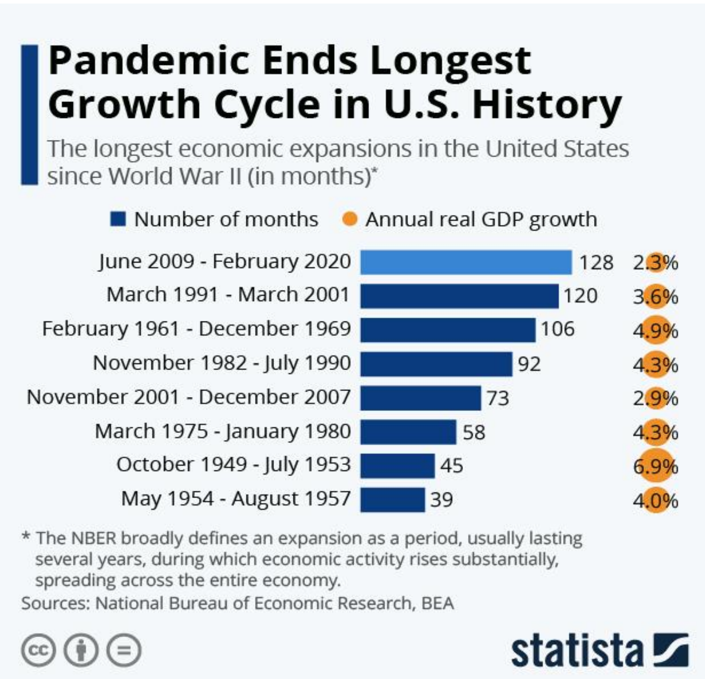
Courier Capital, LLC
Registered Investment Adviser
An affiliate of Five Star Bank

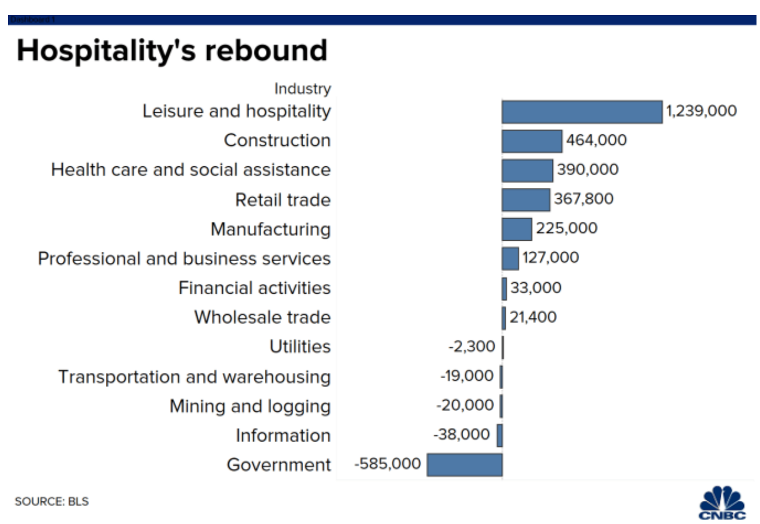
Client Update – It's Official (06/12/2020)

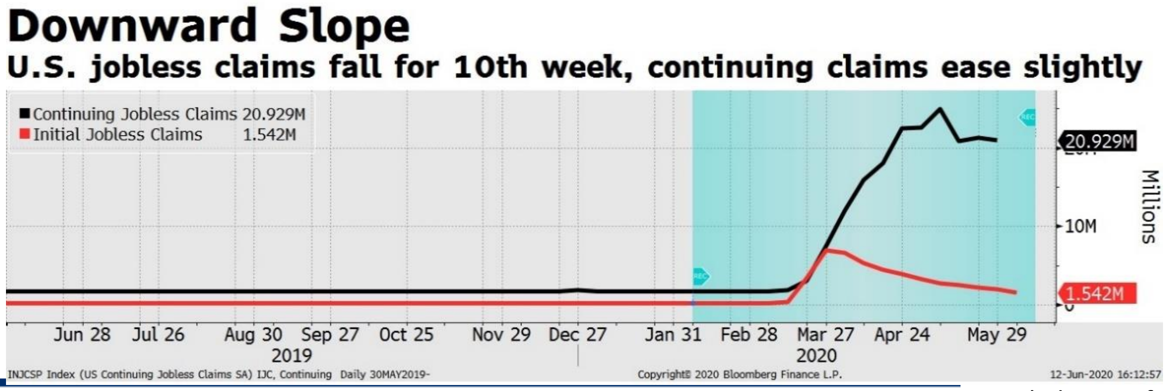
Latest Developments and Economics

The National Bureau of Economic Research (NBER), the organization responsible for maintaining the chronology of peaks and troughs of U.S. business cycles, has publicly declared February 2020 to be the peak of economic activity in the current cycle. This ends the economic expansion that began in June 2009. The 128-month long expansion was the longest in U.S. history dating back to 1854 and now officially puts the United States in a recession. Of course, the main question is still how deep and how long. The United Kingdom this week reported a decline in their monthly GDP of 20.4% in April, the largest on record, and this was preceded by a contraction of 5.8% in March. In the U.S. the Q2 2020 estimates of GDP contraction still range anywhere from -25% to -50% on an annualized basis so there is still much uncertainty. Analysts are looking in every direction for clues and this week, Federal Reserve Chairman Jerome Powell held a press conference after their latest FOMC meeting. He remarked that the virus-related shutdowns have caused a sharp decline in economic activity, a surge in job losses and "tremendous human and economic hardship". Furthermore, he stated that "the extent of the downturn and the pace of recovery remain extraordinarily uncertain and will depend in large part on our success in containing the virus". He reiterated that they aren't even thinking of a future rate increase and indicated this may continue until 2022. Inflation also isn't a problem currently. Although, in his opinion, the depth of unemployment means that the unemployment rate may stay elevated for some time and that the Federal Reserve will do everything it can for as long as it will take to get back to normal employment levels. As an example of the quick Fed response so far, it took 6 years to pump $3 trillion dollars into the economy in 2008 while in 2020 it took 3 months. When asked about another round of stimulus Treasury Secretary Steven Mnuchin indicated they are open to it and pressure is building but, not seriously discussing it until July as there is still over $1 trillion of the $2.6 trillion stabilization package that has yet to be pumped into the economy over the next month. Also, when asked about a second wave of the virus he retorted that they cannot shut the economy again.

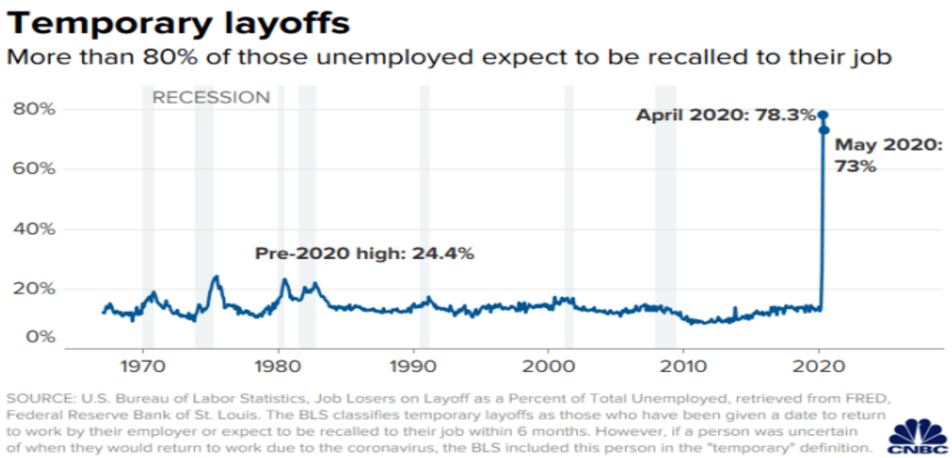


There are signs of life and economic activity beginning to return but differs by region. People returning to work is a critical element of recovery. The June 5 Non-Farm Payroll report unexpectedly reported an increase of 2.5 million jobs when a decline of about 7.5 million was expected. The resulting 13.3% unemployment rate is considered suspect by some due to undercounting of unemployed but, this does provide evidence that people are being recalled to work. The gain was led by the Leisure and Hospitality industry (see chart), which are generally lower paying jobs. More employment evidence followed the next week in the continued reduction, albeit from historic levels, in the initial unemployment claims which dropped to 1.542



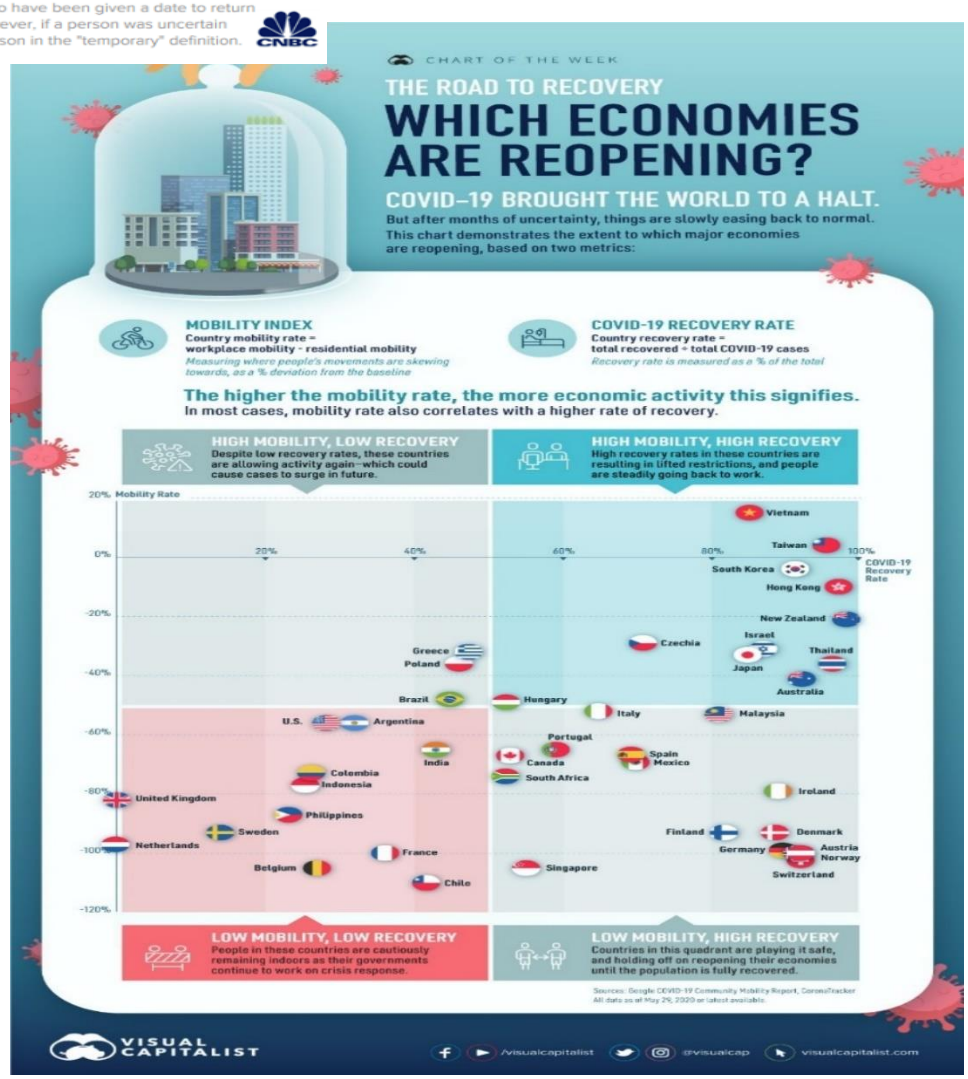


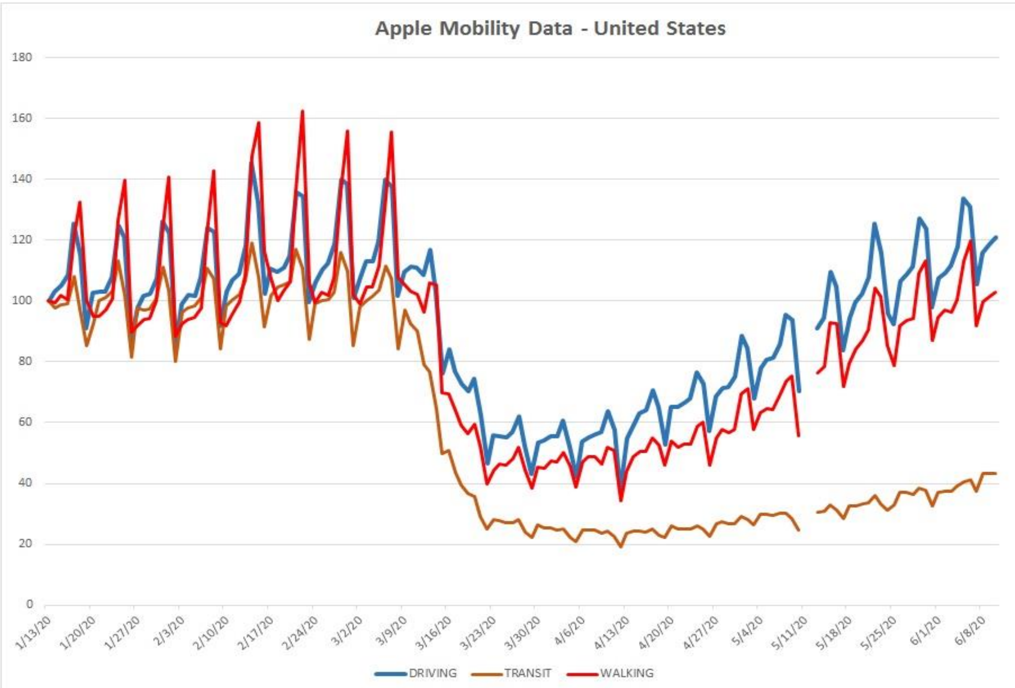
million. This continues its march down from the weekly 6 million that was realized early in the shutdown but, is still very high. What is rather stable is people remaining on unemployment (Continuing Claims) that continues to hover around 21 million. This is what may take a while to work down. If you ask employees though, about 80% of them believe that the unemployment situation is temporary and when the economy reopens fully, they expect to return to the positions they held before the crisis and shut downs began.



Employees returning to work will depend on consumers, who would need to return to their pre-virus spending patterns. There are some indicators that bear watching.

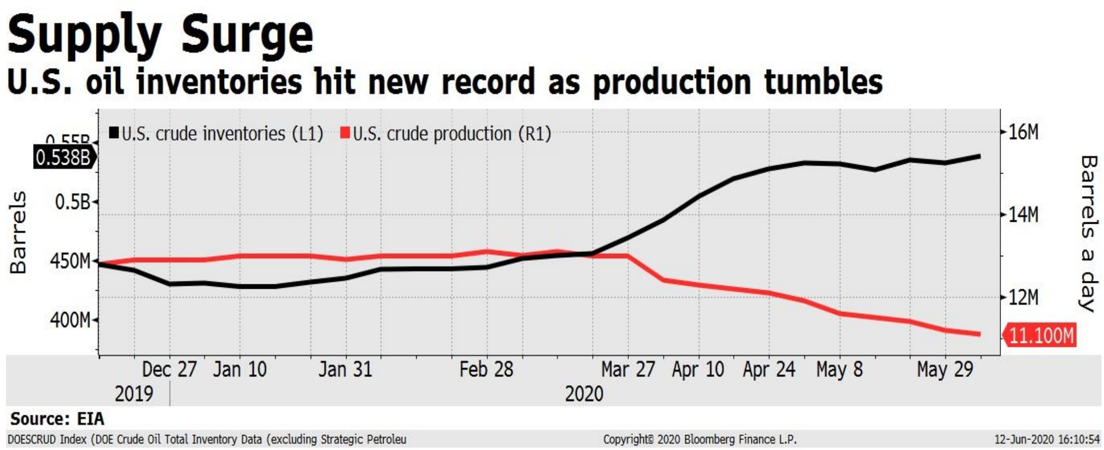
The chart on the right shows the state of reopening by country as measured by their mobility (change in activity around workplaces) and virus recovery rates. The United States is in the low mobility/ low recovery quadrant currently (lower left) which is characterized as a cautious stance. Some Emerging Market countries as well as Japan are in the desirable upper right quadrant, which results in the lifting of restrictions and a return to more normal economic and social activity. The greatest risk seems to be with countries in the upper left quadrant (i.e.: Brazil) as they are countries with a low recovery rate of the virus but have not really embraced social distancing and other mitigating factors yet.

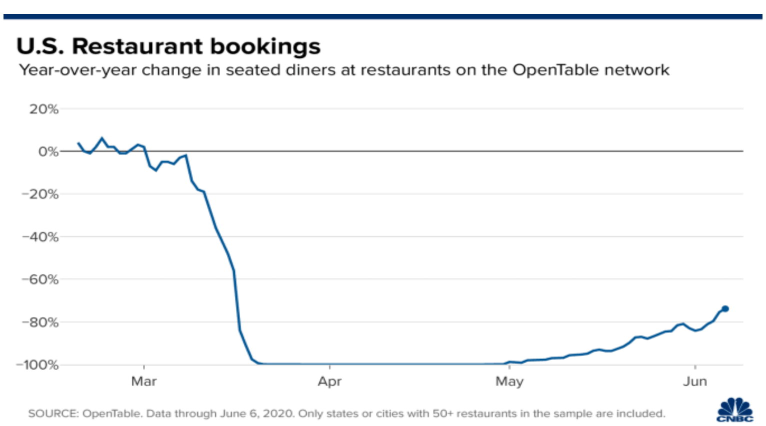


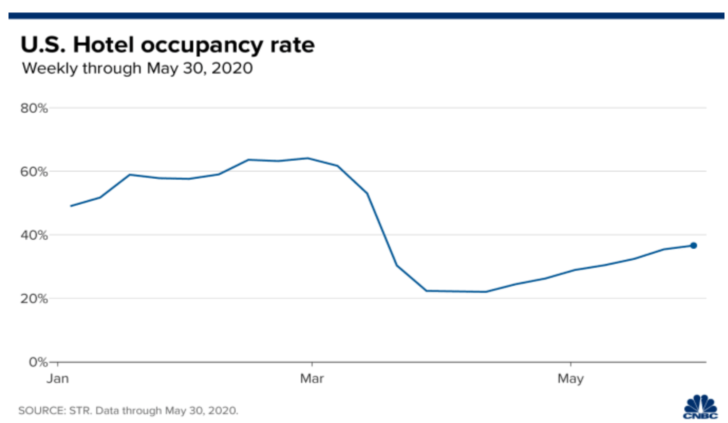


There is other encouraging evidence of the United States beginning to emerge from the situation as of late. The first is measured by Apple. They have been tracking the volume of people asking for directions by different modality. They are tracking driving activity (blue), walking activity(red) and mass transit(brown). The chart measures the activity as of January 13 (baseline), before the shutdowns began, through June 8. As you can see, the United States is starting to return to a more normal driving pattern, but mass transit transportation remains muted.

This additional driving is increasing the demand for oil. This, coupled with the production cuts by OPEC+ have helped to stabilize the price of oil to between $35-$40 per barrel. There is still a demand/supply imbalance and inventories continue to rise despite a cut in domestic production. OPEC+ countries have agreed to extend the 9.7 million barrels per day cut one more month through the end of July.

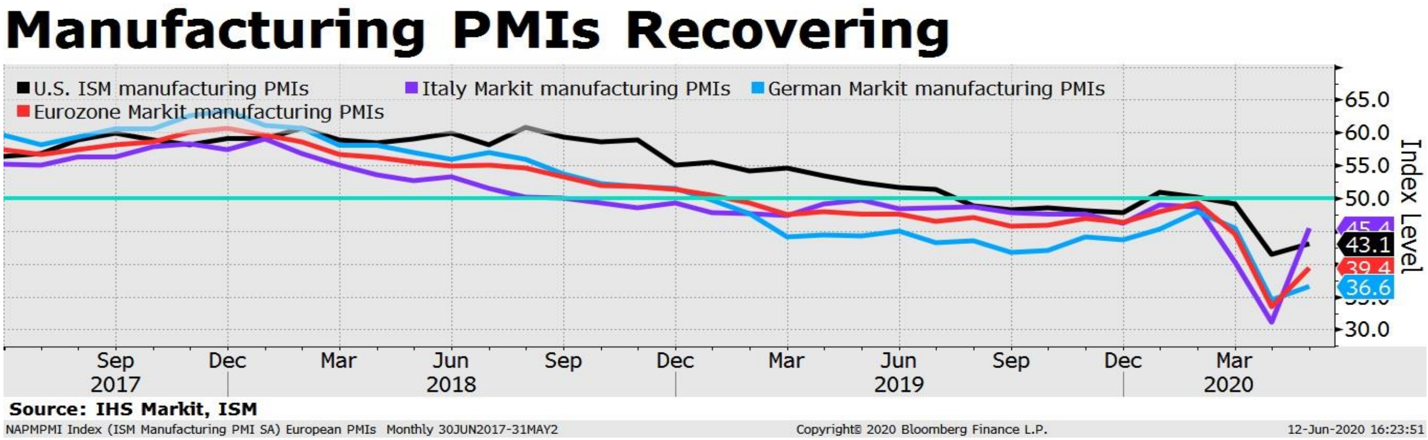






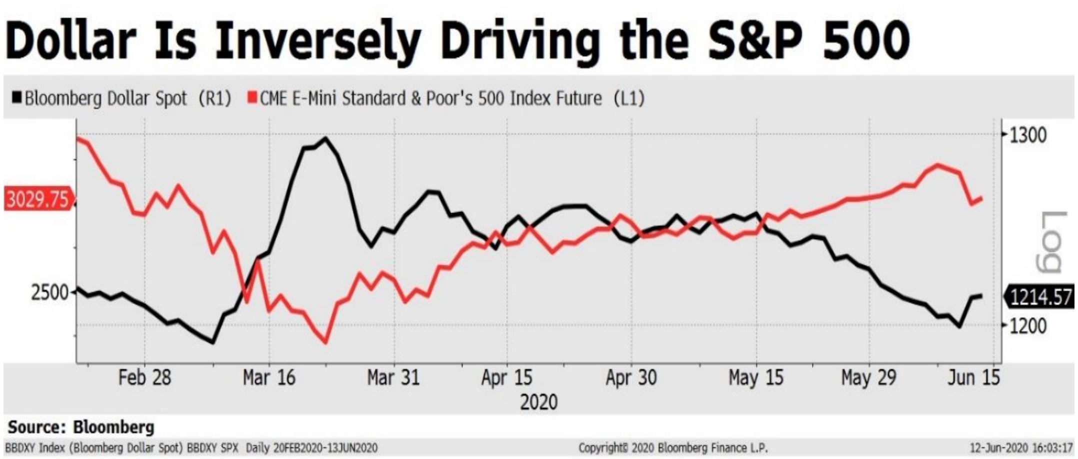
Consumer sentiment began its recovery as measured by University of Michigan survey and has led to other signals of economic life. The result has been increases in air travel traffic, restaurant bookings and hotel occupancy rates. The restaurants would be the easiest to access for a consumer locked in the house for 3 months while hotel occupancy could continue to see an increase in bookings given that we are entering the prime summer vacation season.

Even globally, the signs of increased industrial activity are evident in the recovering Purchasing Manager Index surveys for various developed markets where the latest readings show an upturn in activity.



Financial Markets

Equity and Fixed Income markets in the U.S. continue to exhibit bouts of volatility. The S&P 500 continued its melt up in May/June. The news of states reopening, along with the unexpected jobs news, propelled the index to within a whisker of its all-time high. The question of what rational basis for this market rally continues to swell as significant risks remain. Based on the current state of the economy and expectation for 2020 corporate earnings the market seems to be detached from the economic reality. Some believe that the market is looking past 2020 towards a 'V' shaped recovery in 2021. Contributing to the market increase is the current massive liquidity (provided by the Fed), the zero-rate environment and the direction of the U.S. dollar relative to other world currencies. Regardless how much each of these are contributing to the rise in the equity markets it was all subject to a swift reversal on Thursday June 11 as the S&P 500 declined by about 6.0% based mainly on fears of a second wave of the virus. Despite a shallow recovery the next day the equity markets finished Friday with the worst weekly loss since March. Even after last week's decline the S&P is down only 5% for the year but is about 35% higher than March lows.



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