MARKET REVIEW & OUTLOOK

APRIL 2020

ASHTON THOMAS PRIVATE WEALTH

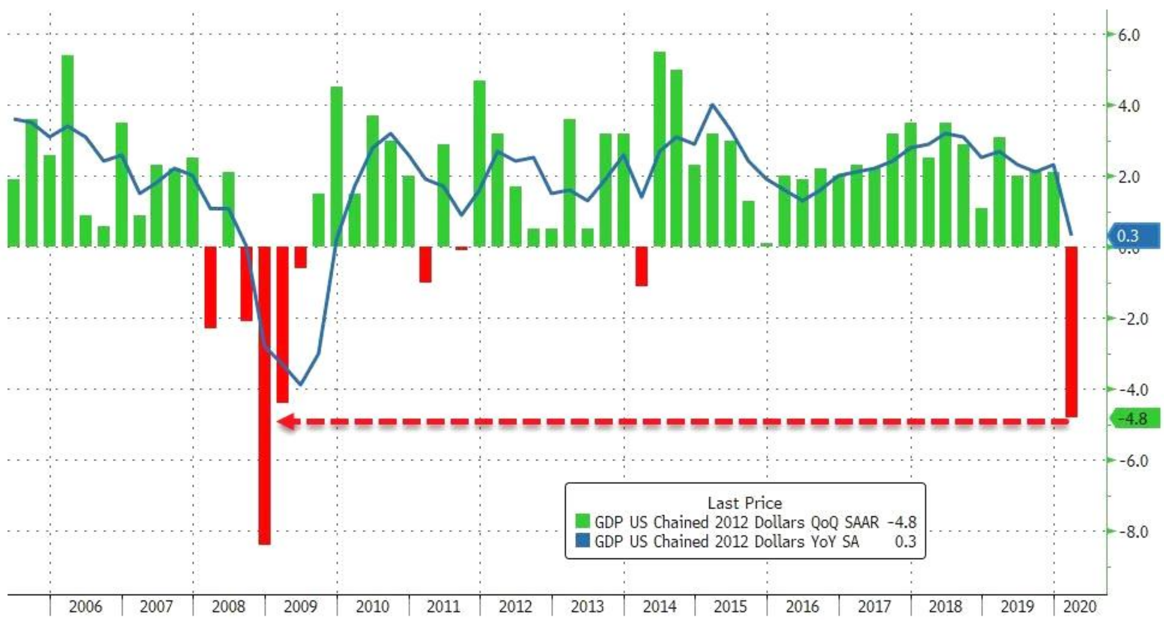
MARKET PULSE

KEY TAKEAWAYS

- Was the March selloff just a figment of our collective imaginations?
- The midpoint recovery we saw in April "only" required a 150-basis-point rate cut by the Fed and a $4 trillion federal emergency cash bailout package from Congress and the administration.[1]
- At long last, some around the country were freed from their homebound status.
- Economic data is beginning to look dismal, as expected, but seems to have had little impact on stock prices as of the end of the month.

How Bad Is the U.S. Economy at This Point?

As the nationwide lockdowns began to take hold, first quarter GDP reported in at an annualized -4.8%, the worst print since the fourth quarter 2008. The chart below provides some context.



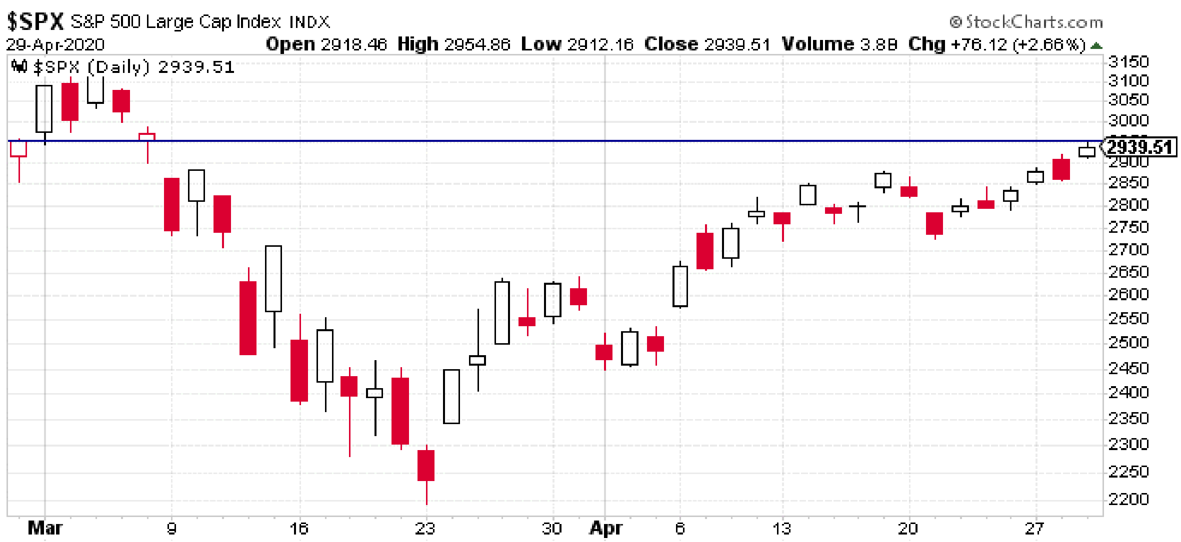
Source: [ZeroHedge]

April Fools

The equity market started April with a thud, dropping almost 4.5% on the S&P 500.[2] But, true to its nickname, the April 1 drop was just a temporary scare. The equity markets roared right back, leaving immediate concerns about the broader financial impact of coronavirus in the proverbial dust. Additionally, an unsightly unemployment claims report on Thursday, April 2,[3] lead somewhat counterintuitively to buying with both hands, as the S&P 500 posted an outsized gain of 2.3% that day.[4] The mantra became, "We know the virus is bad, but once it's gone, everything will be awesome again." The freight-train-like rally of April was on the move, so best to just get out of the way, right?

The Fed meeting Wednesday, April 29th, concluded with no new action.[5] Since they had already pushed in all their chips (with the exception of buying equities), there wasn't really much action to take at that point. The latest bullet fired by the Fed occurred Thursday, April 9, when they announced the addition of high-yield bonds to their "risk-free" portfolio.[6] High-quality fixed income, as measured by the Barclays iShares US Aggregate Bond Index ETF, was up 1.8% for the month.[7] US 10-year treasury bond yields were modestly lower even in the face of a significant rally in equities during April. The yield ended at 0.62%,[8] modestly lower from last month's close of 0.70%.[9]

During the month, stock market results ended very strong. The Dow was up 11.08%,[10] the S&P 500 increased by 12.68%[11] and the small cap Russell 2000 edged the others out at 13.66% up.[12] The international markets were less enthusiastic, though still positive. The MSCI EAFE iShares Core International Developed Markets Index rose 6.29%[13] and MSCI Emerging Markets iShares Core Index climbed 7.88%.[14]



For a change of pace, there were plenty of sector winners in April (all of them, actually), with the best performers being...[15]

- Energy: +30.76%
- Consumer Discretionary: +18.88%
- Materials: +15.19%

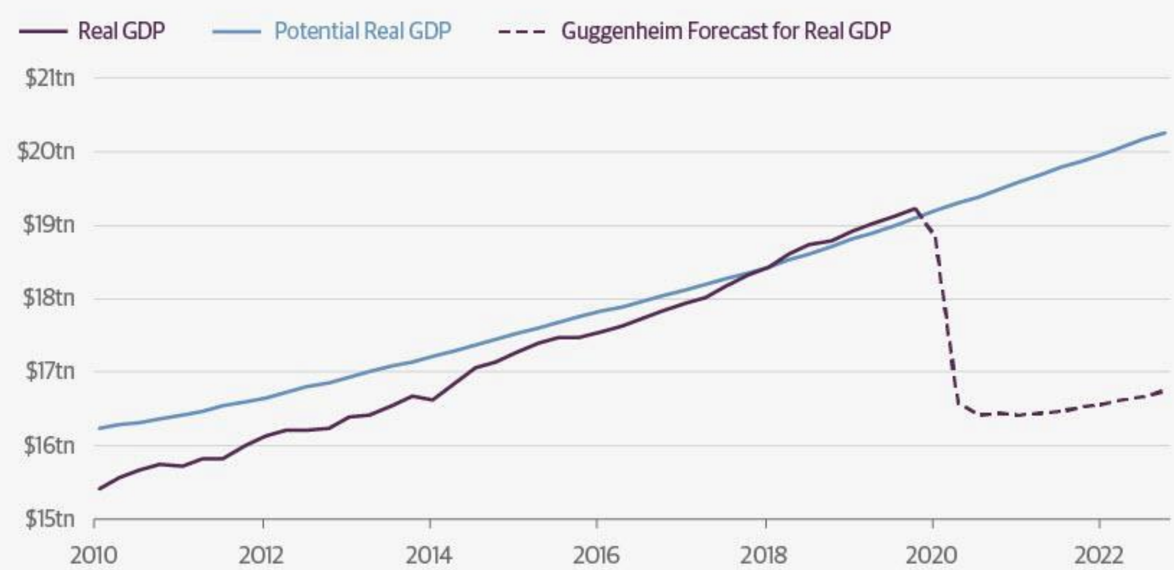
The Oil Saga Continues

Oil prices were very volatile under the surface of the monthly change. We saw settlement issues drive the expiring May contract to -$37.63,[16] as the demand segment of the world economy stopped using oil and the supply segment did not stop producing it. In general, the world has run out of space to store excess oil reserves. The lack of storage space persisted into the end of April, driving the current contract as low as $6.50 on April 21.[17] The last few days of the month saw daily drops and rallies of 20%+.[18] The oil market seemed to get some "good" news at the end of the month, when the crude oil build was smaller than expected because production was finally reduced and demand had also sunk.[19] While this decrease in production was helpful, at least temporarily, the world is still awash in oil supply. Significantly more oil is being produced daily and is sitting in storage than is being consumed. This imbalance will not likely correct itself anytime soon. As a result, the current Nymex crude oil futures settled at $18.84, sliding from $20.48 a barrel, posting a loss of 8%[20] and furthering the year-to-date weakness. The price for RBOB gasoline took a different path than crude oil, perhaps because the much-delayed summer driving season may finally be here (i.e., people across the U.S. are slowly being allowed out of their homes again). Gas prices closed higher by over 32% for the month.[21] After an initial decline, prices at the pump have been holding steady.

And Now, the Underlying Economic Data

With the country and most of the world on lockdown, economic indicators revealed that the COVID-19 pandemic took a big bite out of the US economy in April, as expected. The March ISM Manufacturing Index eased 1.0 points to 49.1 from February's reading of 50.1.[22] Additionally, the ISM Services Index dropped to 52.5 from 57.3 in March.[23] Any reading below 50 generally indicates deteriorating conditions, and April will probably show significant declines from the March numbers with the lockdowns from the pandemic continuing. Consumer confidence showed an even more significant drop in April to 86.9 from a downwardly revised 118.8 in March,[24] as the severity of the pandemic took hold. The unemployment rate jumped to 4.4% and the economy lost a substantial 701,000 jobs in March.[25] The continued high level of initial jobless claims in recent weeks pretty much insures a large jump in the unemployment rate and loss of jobs in the April report. The Consumer Price Index for All Urban Consumers (CPI-U) dropped -0.4% in March on a seasonally adjusted basis. Over the last 12 months, the all-items index rose +1.5% on a non-seasonally-adjusted basis.[26] Overall, these backward-looking numbers are starting to give evidence of the magnitude of the economic impact. The May releases will likely be the bottom of the current wave of negative reports, as the economy begins to reopen. However, the trillion-dollar question is what level of economic activity will become the "new normal?" Here is Guggenheim Investments' take:

The Economic Recovery Is Unlikely To Be V-Shaped



Source: Guggenheim Investments, Haver Analytics, CBO. Actual data as of 12.31.2019.

Global growth is still on hold due to the COVID-19-induced lockdowns. Some countries and states are beginning to open the door to see if the world still exists out there. But, as illustrated by the chart above, the question of whether we will return to trendline growth or, instead, to some degree of permanent economic impairment remains. The U.S. equity markets are saying, "Party on, Garth!" The fixed income markets? Not so much. Yields on treasuries are flat, which is uncommon in the face of an outsized equity rally. It may simply be that the Fed has taken over the fixed income markets for now and broken the "normal" signals.[27]

The conversation has shifted from "how much damage to the economy and earnings should be priced in" to "the Fed has our back and this will be soon a distant memory." That line of thinking seems premature. As companies are reporting first quarter earnings, most are withdrawing forward guidance. From a historical perspective, on May 19, 2008, the S&P 500 regained the long-term trend line of the 200-day moving average,[28] widely viewed as a sign things were returning to normal on the backs of a Fed rate cut. The S&P 500 ended that day at 1,426.63 and fell back below the200 day moving average not to be touched again until June 1, 2009 when the S&P 500 closed at 942.87.[29] The Fed and U.S. government have certainly moved at the speed of light in 2020 versus 2008, but does speed do anything to eliminate the underlying economic damage? Will the 30+ million jobless[30] find work again in a short enough timeframe to eliminate the derivate impacts of missed payments on rents and mortgages, avoiding the domino effect of owners not receiving their payments and meet their obligations to banks?

The equity markets are currently winning this "tug-of-war" between economic weakness and the do-not-fight-the-Fed mentality we developed a decade ago in the wake of the Great Financial Crisis. This battle continues but has not factored in a potential second wave of the coronavirus or the likely negative ramifications to staffing levels in September when the PPP loans become grants and are forgiven, enabling another round of layoffs by employers.

What Now?

So, we will turn to what we can control: the amount of exposure to equity risk. Whether we are destined for new highs or not is not the relevant question. The appropriate question investors should continue to ask themselves is, "Does my current equity allocation match the level of risk I am comfortable with? Think about this particularly if we are not heading for new highs, but for additional negative days in the stock market. Employing rules-based defense mechanisms can serve to mitigate equity risk in a downturn. If the equity markets sustain intermediate to long term advances, rules-based defense mechanisms will move back into risk-on mode. Speak with your advisor to determine if such measures are appropriate for you.

We, along with your advisor, will continue to monitor the developing economic situation and provide additional updates as merited.

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IMPLICATIONS FOR YOUR FINANCIAL PICTURE

Here are some key points to bear in mind when discussing your portfolio and your financial goals with your advisor…

- ***You***: While volatility in the markets has subsided somewhat, it could return or increase at any time. Keep your long-term goals and objectives. A proactive, informed financial plan aligned with an appropriate asset allocation strategy is the path to financial wellbeing.
- ***Your Advisor***: We will continue to support your advisor in evaluating your risk profile, your financial goals and your portfolio allocation. As economic conditions change, we will be watchful and keep you informed. We will continue to follow the COVID-19 pandemic and other developments, advising you as needed. Your advisor is here to answer questions and keep you focused on your financial roadmap.

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