MARKET REVIEW & OUTLOOK

JUNE 2020

ASHTON THOMAS
PRIVATE WEALTH

MARKET PULSE

BREAKING NEWS

- The much-anticipated June employment report was released Thursday, July 2nd. Following an unexpectedly strong May report was yet another significant jump in payrolls, with a record 4.767 million jobs added. The unemployment rate fell again, down to 11.1%.[1]
- The Bureau of Labor Statistics (BLS) admitted in their June report that May and June's unemployment numbers were misstated due to a misclassification of some unemployed people as "unemployed on temporary layoff," although the June misstatement was, apparently, not as pronounced as the May number. The exact magnitude is not yet clear.[2]

KEY TAKEAWAYS

- The rally from the March crash extended through June 8th.[3]
- Between easing lockdown restrictions and increasing protests, cases of the corona virus hit new highs.
- As a result, the second half of June was decidedly more negative with a -6% blow to the S&P 500 on June 11th,[4] erasing the month's gains in one day.
- The paramount question remains: What will be the pace of the economic recovery, especially in light of conflicting economic data?

The U.S. Economy: A Checkup

The third estimate for first quarter GDP remained at an annualized -5.0%,[5] the same as the second print. Clearly, that's old news at this point. The big question now is will second quarter GDP mark the bottom and be as bad as the forecasts predict? If the print is as ugly as the forecast, does that mean current third quarter GDP estimates are overly optimistic? The ongoing reopening delays seen in New York and New Jersey—now coupled with rollbacks of openings in California, Texas, Florida, and Arizona—were not anticipated or baked into the prior third quarter GDP estimates.[6]

Stocks and Bonds

The fixed income markets experienced significant volatility, with 10 years treasury yields rallying strongly in the face of the early month exuberance in equities, reaching a peak of 0.96% on June 4th.[7] However, that marked the peak, rather than start, of the yield rally. High-quality fixed income, as measured by the Barclays iShares US Aggregate Bond Index ETF, was up 0.68% for the month.[8] After the initial volatility, U.S. 10-year treasury bond yields settled flat.[9] The yield ended at 0.65%, unchanged from May's close of 0.65%.[10]

During the month, stock market results ended positive with a late month rally. The Dow Jones Industrial Average increased 1.69%,[11] the S&P 500 climbed by 1.84%[12] and the small cap Russell 2000 rose 3.40%.[13] The international markets were stronger. The MSCI EAFE iShares Core International Developed Markets ETF Index rallied 2.02%[14] and MSCI Emerging Markets iShares Core ETF Index jumped 5.68%.[15] The chart below illustrates the likely connection between Fed monetary policy support and the U.S. equity market rally. Now, it appears the growth trajectory of the Fed's balance sheet has slowed. Will the same happen to equity prices?

Source: https://www.zerohedge.com/markets/greatest-bear-market-rallies-all-time-and-why-one-ending

In June, finally we saw more than one direction for all sectors of the S&P. The best performers were…[16]

- Technology: +6.66%
- Consumer Discretionary: +2.83%

The worst performers being…

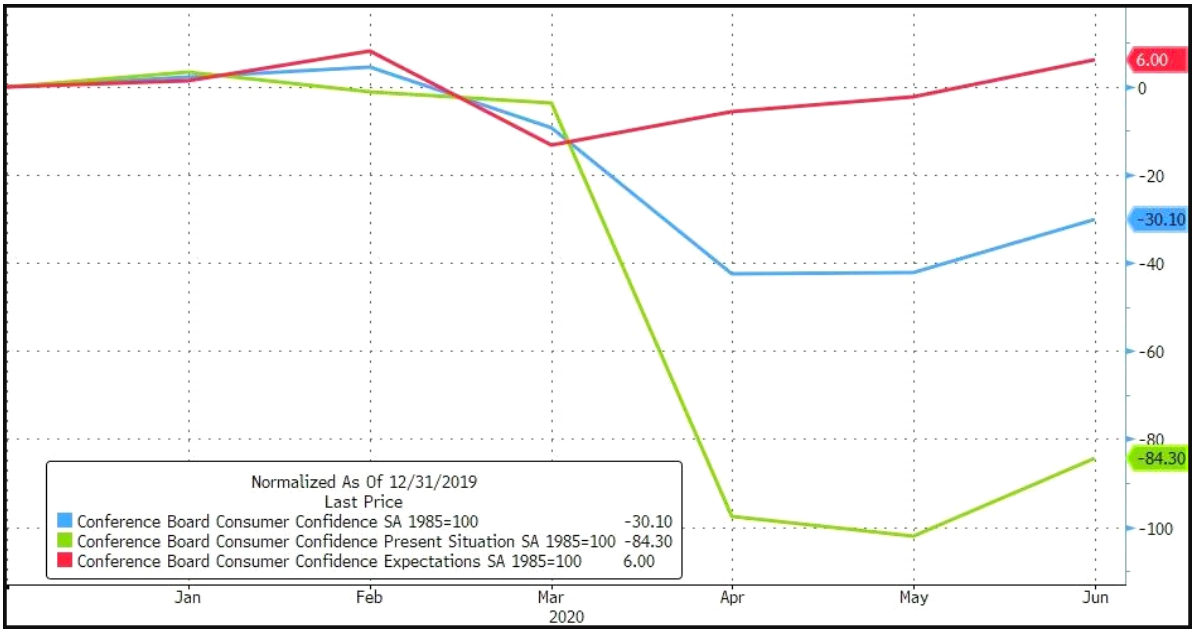
- Utilities: -5.46%
- Health Care: -2.85%
- Energy: -2.35%

Uncertain Oil

June was a good month for oil, but it was a rather choppy path as the tug of war between the pace of economic reopening versus supply continued to play out. The current NYMEX WTI Crude Oil futures settled at $39.27, posting a gain of over 10% from the prior month close of $35.49 a barrel.[17] The price for RBOB gasoline followed a similar path of crude oil, continuing last month's rally, also in a choppy fashion. The long-awaited driving season finally began in May with Memorial Day travel, but that may have been a double-edge sword, as it appears social distancing was not well adhered to in some locales. The result is rollbacks in initial reopening procedures for some regions and delays in starting the process for others. However, gas prices closed higher by over 11% for the month of June. Having said that, the path forward for resuming demand is now less certain.[18]

The Rest of the Details

As the country and most of the world continued to come out of lockdown, the economic indicators began to show signs of life after the initial shock from the corona virus pandemic on the U.S. economy. The May ISM Manufacturing Index climbed 1.6 points to 43.1 from April's reading of 41.5.[19] Additionally, the ISM Services Index jumped to 45.4 from 41.8 in May.[20] Any reading below 50 generally indicates deteriorating conditions. The expected pickup in May came to fruition, though both sectors remain in contractionary territory. Consumer confidence (expectations) soared with June coming in well above forecast at 98.1 from a downwardly revised 85.9 in May.[21]



Source: https://www.zerohedge.com/markets/us-consumer-confidence-rebounds-june-led-hope

The chart above shows the focus on "expectations," which would seem to indicate a return to normal soon.

The chart shows that while the aggregate number is 30 points below year end and the present situation is a rough 84 points below year end, the expectations index is above year end. While the U.S. has generally been viewed as an optimistic nation, could this be too much of a divergence between current reality and hope for the future? Time will tell.

The unemployment rate posted a surprising drop to 13.3%, as the economy added 2,500,000 jobs in May.[22] Admittedly, the government later came out and said they do not know if their data is accurate. Economists were generally expecting unemployment to come in at 19.8%, with job losses of 7.73 million.[23] Given that the country was largely on lockdown for the measurement period, the job gains may have been driven by overwhelmed computer models more than real job growth. Hopefully, the June report will shed more light on the situation, especially in the revisions to previous months. The persistence of continued high levels of initial jobless claims in recent weeks is troubling and contradicts the May report. The initial jobless claims have continued to come down, but not at the rate many expected, especially as lockdowns were eased in several large states like Texas and Florida, as well as Arizona. The Consumer Price Index for All Urban Consumers (CPI-U) dropped -0.1% in May on a seasonally adjusted basis. Over the last 12 months, the All-Items Index rose a meager +0.1% on a non-seasonally-adjusted basis.[24] Overall, these numbers show the depth of the economic impact of the pandemic, but also signs of green shoots in the long-hoped-for economic recovery.

Summary

The story remains much the same as the last few months. The depths of global contraction may have been found, as the pandemic-induced lockdowns began to ease. Upon reflection, the event of March is probably better described as a crash, though we normally assign that designation to a day (e.g., Black Tuesday, October 29, 1929[25] or Black Monday, October 19, 1987[26]). In this case, an exception to that

"general rule" may be appropriate. The normal characteristics of a "bear market," aside from the commonly accepted 20% decline from the top, is when market participants are reluctant to reengage with the markets for a period of time and continue pricing in a negative scenario. It is usually when market participants give up and the market has gotten too pessimistic on earnings and economic growth that the seeds for the bear market's end have been planted. With the benefit of hindsight, neither of those objectives have been met. For now, the path seems to be continued optimism joined (or maybe supported) by ongoing monetary policy ungirding from the Fed.

This "glass-is-nearly-full" scenario means that expectations and valuations for U.S. equities are relatively high. The opportunistic components of the core Ashton Thomas strategies have reengaged in risk, but we would still not advise a stretch for additional risk. There are still many unknowns at present which could potentially disrupt this buoyant theme. Continuing to focus on your financial plan with a view to the long term is your most prudent course of action.

Please continue to stay safe and healthy by focusing on your wellbeing. We will continue to wait for clarity on global economic and political affairs and will monitor the ongoing variety of uncertain factors around us. We will help your advisor stay informed about trends and opportunities which may benefit or impact you.

IMPLICATIONS FOR YOUR FINANCIAL WELLNESS

- ***You***: Remember, your financial planning goals and objectives should be front and center, not what the market did last week or last month. Your investments are important to you and your advisor, but news headlines or daily activity in the financial markets can serve as a distraction from the bigger picture. Your financial plan, aligned with an appropriate asset allocation strategy, is the path to your Ideal Financial Life.
- ***Your Advisor***: Let your advisor do the "worrying" for you. Our team at Ashton Thomas is continually monitoring market and economic events which may impact your portfolio. As conditions change, we will be watchful and our aim is always to be proactive, not just reactive. We are never perfect in our execution, but we aim to keep you on the most prudent path for your financial goals over the long term. Your advisor is always available to answer questions and remains focused on helping you work toward what matters most to you.

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