# Summit Snapshot: Week Of June 8th, 2020

**Global Markets: Equities surge following shocking labor market news while bond yields rose**

- **U.S. Equities** produced their best weekly return in more than two months on the heels of further economic recovery signs. The stunning catalyst that accounted for roughly half of the week's gains was the May jobs report released on Friday morning which indicated about 2.5 million jobs had been added by employers during the month. This news was announced as a complete surprise to nearly every economist and is thought to indicate the U.S. is well along its journey of an economic recovery. Remarkably, the S&P 500 and Wilshire 5000 indices are nearly flat for 2020 which is an incredible statistic to ponder considering the events of the last three and a half months. Value outperformed growth for the 3rd consecutive week and small-cap stocks beat large-caps (as measured by their respective Russell indices). Within sectors, energy (+15.6%) and financials (+12.2%) led the results and recouped some of their losses for the year. The lowest returning sector, health care (+0.2%), still came out positive but was reflective of its defensive nature in the ever-increasing risk-on stance in the market. Interestingly, all the positive market reactions unfolded amidst ongoing civil turmoil and organized protests throughout the nation.

- **International Equities** performed very well, as countries digested more reopening news along with a brand-new European stimulus package. The MSCI Europe Index rose by almost 9% after the European Central Bank (ECB) said it will continue to react appropriately to drive their inflation rate to their target. The ECB also increased its bond-purchasing program by €600 billion with the intention to reinvest the proceeds into the economy for the next 2.5 years. Developed international markets, represented by the MSCI EAFE Index, had a great week as the index increased by just over 7%. However, this lagged behind emerging markets, represented by the MSCI EM Index. The index rose 7.9% for the week, supported by strong returns originating out of China and Latin America. The recently enacted law by China to nationalize Hong Kong did not seem to be too harmful to their equity markets.

- **Credit Markets** had mixed results for the week, depending upon the sector in question. Despite Treasury yields rising following the strong economic news, credit spreads tightened and both corporate bond breeds (investment-grade and high-yield) advanced. These sectors were also supported by continued strong levels of new issuance and relatively high demand. The 10-year Treasury rate ended the week at 0.91%, its highest level since mid-March. Municipal bonds rose through Thursday but fell back slightly on Friday to end the week flat represented by the Bloomberg Barclays Municipal Bond Index. Likewise, the Bloomberg Barclays U.S. Aggregate Bond Index, the broad barometer for domestic fixed income, fell slightly by -0.5% for the week.

**Economic Data/News: The labor market's surprises caught everyone off guard and helped to build some positive consumer sentiment**

- **U.S.:** Many economic surprises attributed to the positive sentiment throughout the week. First on Wednesday, **ADP** reported the private sector jobs declined by less than expected in May. Then on Friday, the hint from Wednesday was reassured as the Labor Department officially reported employers adding back 2.5 million jobs during the month. This came as a huge surprise to everyone, since most predictions were calling for a decline of about 9 million jobs. It also translated to a new domestic unemployment rate of 13.3%, down from the most recent 14.7%. Additionally, the Institute for Supply Management's service activity gauge reflected a smaller contraction that was forecasted in May. Separately, the consumer savings rate reached a record-high 33% in April implying there is an excess amount of cash sitting on the sidelines waiting to be incorporated as the economy reopens. Some newsworthy topics from past weeks, namely the U.S.-China trade tensions and the fight against the coronavirus, seemed to have taken a backseat behind the many pleasant economic updates.

- **International:** On top of the previously mentioned ECB pledge to purchase more bonds, Germany's government has agreed to distribute an additional €130 billion stimulus for the country. The package includes a widespread tax-cut and funds expected to assist mobile networks, railways, and even electric car purchases. Japan's unemployment rate currently sits at 2.6% which looks amazing when compared to the U.S. or even the Eurozone's level of 8%. However, the country's May number was not released yet, and unemployment is expected to rise especially after some companies with excess capacity will be forced to lay off workers. China is benefitting from the economic rebound as their government bonds remain popular with foreign investors, as nonresident inflows topped $7.7 billion for the second consecutive month. Also, their version of a purchasing managers' index (PMI) fell ever slightly from 50.8 to 50.6 but remained in expansion territory for the third straight month. Finally, the People's Bank of China (PBoC) set up a ¥400 billion (~$56 billion) policy for the central bank to buy up to 40% of loans to small- and mid-sized businesses from local banks. It seems China is determined to steady the ship after emerging from the prior coronavirus-caused economic shutdown.

**Odds and Ends: Mostly peaceful protests resume, the NBA is resuming action and its season, and the airline industry is expected to shrink and may take years to fully recover to previously reached levels**

- As more and more cities and towns across the nation and world speak out against the recent killing of George Floyd, some of the larger demonstrations in the U.S. were conducted in a peaceful manner. Peaceful protests took place over the weekend in New York, Los Angeles, San Francisco, Chicago, Minneapolis, Philadelphia, Boston, and many smaller local towns. Some mayors who had enacted curfews hoping to curtail the violence, have lifted them on Sunday in lieu of the positive demonstration of the First Amendment. In addition, President Trump ordered the National Guard to withdraw troops from Washington D.C. Hopefully, the peaceful freedom-of-speech ensues for the sake of people everywhere.

- After being shut down nearly three months ago, the **NBA** voted on Thursday to resume the 2019-20 season on July 31st. The plan is for 22 of the 30 teams to play eight regular-season games soon followed by the playoffs, which may last until October 12th if the NBA Finals goes to a game seven. All games will be played without fans and in Orlando, Florida using Walt Disney World's broad campus as ground zero. Although the team's owners voted in a landslide to resume the season, the vote now shifts to the NBA players' union. If it passes there, then actually pulling it off will be next since many important factors are still to be determined.

- Although the airline industry received $25 billion from the Federal government as part of the CARES Act, many carriers are facing imminent capacity reductions on several levels. The industry is not expecting to return to its pre-pandemic level for years to come as passengers weigh the benefits of flying versus health risks. Many airlines' plans are to reduce the number of aircrafts in use, flights that are offered, and total number of employees. These reductions may be seen as early as October 1st, the date that many restrictions related to the CARES Act's funds expire, and airlines may be forced to make changes. Airlines' executives are confident that people will continue flying in the future, but it will likely take an extended amount of time for demand levels to increase to sustainable levels.

**Resource of the week:**

- One of the backbones of small business in the country is the restaurant industry. This episode of *Business Casual* features a conversation with the famous restaurateur, reality TV star, and owner of Red Rooster in Harlem, New York, Marcus Samuelsson. He gives his experienced opinion of how the restaurant industry is handling the current pandemic, what obstacles his and other restaurants are facing or may have even overcome, and what he expects to emerge out from this in the future. If you enjoy eating out at a small business restaurant, take a listen to this and think through the logistics required to run such a business. Please feel free to submit suggested resources to smelnick@sfr1.com.

- **Spotify link**: https://open.spotify.com/episode/7KYyR6hd7GiHZYb5ehPBEs?si=Rtk0kOaoSW2vvIwfDwsZHg

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

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