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Market Month: May 2020



The Markets (as of market close May 29, 2020)

May saw several states and foreign countries ease restrictions put in place in response to the COVID-19 pandemic. As economies slowly picked up momentum, investors grew more confident in stocks, driving values higher. However, investor optimism was kept in check by sobering economic reports and growing tensions between the United States and China.

The unemployment rate reached its highest level since the Great Depression while claims for unemployment insurance soared past 25 million. Economic output lagged in April as expected. Hardest hit were automakers, restaurants, and airlines. The month closed with a speech from President Trump condemning China over the pandemic, Hong Kong, and several other "broken promises."

Despite these issues, investors drew optimism from the possibility that a COVID-19 vaccine is on the horizon, the gradual lifting of lockdowns, and the stimulus efforts in play. While May didn't see the double-digit gains enjoyed in April, the benchmark indexes listed here still managed to post encouraging returns. The tech-heavy Nasdaq led the way, followed closely by the small caps of the Russell 2000, each index ending the month more than 6.0% ahead. The large caps of the Dow and S&P 500 advanced by more than 4.0%, and the Global Dow increased by over 3.25%.

Year to date, only the Nasdaq is comfortably ahead of its 2019 closing value. The S&P 500 is less than 6.0% from breakeven, while the other indexes listed here remain well off their year-end pace.

By the close of trading on April 30, the price of crude oil (CL=F) sank to \$19.04 per barrel, well below the March 31 price of \$20.35 per barrel. Reeling oil values sent prices at the pump spiraling downward. The national average retail regular gasoline price was \$1.960 per gallon on May 25, up from the April 27 selling price of \$1.773 but \$0.862 less than a year ago. The price of gold rose by the end of April, climbing to \$1,691.00 by close of business on the 30th, up from its \$1,591.20 price at the end of March.

Stock Market Indexes

Market/Index	2019 Close	Prior Month	As of May 29	Month Change	YTD Change
DJIA	28,538.44	24,345.72	25,383.11	4.26%	-11.06%
Nasdaq	8,972.60	8,889.55	9,489.87	6.75%	5.76%
S&P 500	3,230.78	2,912.43	3,044.31	4.53%	-5.77%
Russell 2000	1,668.47	1,310.66	1,394.04	6.36%	-16.45%
Global Dow	3,251.24	2,661.71	2,749.85	3.31%	-15.42%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	0.00%-0.25%	0 bps	-150 bps
10-year Treasuries	1.91%	0.62%	0.64%	2 bps	-127 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Key Dates/Data Releases

6/1: *Markit PMI*

Manufacturing Index, ISM Manufacturing Index

6/3: *ISM Non-Manufacturing Index*

6/4: *International trade in goods and services*

6/5: *Employment situation*

6/9: *JOLTS*

6/10: *Consumer Price Index, Treasury budget, FOMC statement*

6/11: *Producer Price Index*

6/12: *Import and export prices*

6/16: *Retail sales, industrial production*

6/17: *Housing starts*

6/22: *Existing home sales*

6/23: *New home sales*

6/25: *Durable goods orders, GDP, international trade in goods*

6/26: *Personal income and outlays*

Latest Economic Reports

- **Employment:** In April, the unemployment rate increased by 10.3 percentage points to 14.7%. This is the highest rate and the largest over-the-month increase in the history of the series. The number of unemployed persons rose by 15.9 million to 23.1 million in April. The sharp increases in these measures reflect the effects of the coronavirus pandemic and efforts to contain it. The number of unemployed persons who reported being on temporary layoff increased about tenfold to 18.1 million in April. The number of permanent job losses increased by 544,000 to 2.0 million. The labor force participation rate decreased by 2.5 percentage points over the month to 60.2%, the lowest rate since January 1973. Total employment fell by 22.4 million to 133.4 million. The employment-population ratio, at 51.3%, dropped by 8.7 percentage points over the month. This is the lowest rate and largest over-the-month decline in the history of the series. In April, employment in leisure and hospitality plummeted by 7.7 million, or 47.0%. Almost three-quarters of the decrease occurred in food services and drinking places (-5.5 million). Employment also fell in the arts, entertainment, and recreation industry (-1.3 million) and in the accommodation industry (-839,000). In April, average hourly earnings for all employees rose by \$1.34 to \$30.01. The increases in average hourly earnings largely reflect the substantial job loss among lower-paid workers. The average workweek increased by 0.1 hour to 34.2 hours in April.
- **FOMC/interest rates:** The Federal Open Market Committee did not meet in May. Interest rates remained unchanged in May.
- **GDP/budget:** The second estimate of the first-quarter gross domestic product showed economic growth decreased 5.0%. The GDP expanded at an annual rate of 2.1% in the fourth quarter. The decline in first-quarter GDP reflected the response to the spread of COVID-19, as governments issued "stay-at-home" orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending. Personal consumption expenditures (consumer spending) decreased by 6.8% (compared to 1.8% growth in the fourth quarter). Orders for durable goods fell 13.2%. Nonresidential fixed investment decreased 7.9%. Exports fell 8.7% while imports plummeted 15.5%. Consumer prices rose 1.3% (1.4% in the fourth quarter).
- The government deficit in April was \$738 billion, well ahead of the March deficit of \$119 billion. Outlays for April totaled \$980 billion, an increase of \$624 billion over March and \$604 billion over April 2019, largely due to the release of assistance related to the COVID-19. This assistance included Economic Impact Payments to individuals and families (\$217 billion); Coronavirus Relief Fund payments to state, territorial, local and tribal governments (\$142 billion); increases in Medicare and other Department of Health and Human Services programs (\$146 billion); and increases in unemployment benefits and other Department of Labor programs (\$46 billion). April receipts were \$5 billion greater than March receipts but \$294 billion lower than April 2019, as certain taxes from individuals and corporations were deferred until July.
- **Inflation/consumer spending:** According to the Personal Income and Outlays report for April, both personal income and disposable (after-tax) income did an about-face, increasing 10.5% and 12.9%, respectively, after plunging in March. Consumer spending continued to fall, down 13.6% in April after declining 7.5% the previous month. Price inflation remained low, however, as consumer prices dropped 0.5%. Over the last 12 months, consumer prices are up only 0.5%.
- The Consumer Price Index fell 0.8% in April after dropping 0.4% in March. The April decrease was the largest monthly decline since December 2008. Over the last 12 months, the all items index increased 0.3%. A 20.6% decline in gasoline prices was a major cause of the monthly decrease, but apparel, motor vehicle insurance, airline fares, and lodging away from home all fell sharply as well. In contrast, the food index rose in April, with the index for food at home posting its largest monthly increase since February 1974.
- Prices producers receive for goods and services followed a 0.2% decline in March with a 1.3% fall in April — the largest decrease since the index began in December 2009. The Producer Price Index moved down 1.2% for the 12 months ended in April, the largest decline since falling 1.3% for the 12 months ended November 2015. Prices less foods, energy, and trade services fell 0.9% in April, the largest decline since the index was introduced in September 2013. The index for goods fell 3.3% in April, the largest decline since the series began in December 2009. Most of the broad-based decrease is attributable to prices for energy, which fell 19.0%.
- **Housing:** Sales of existing homes plunged 17.8% in April after falling 8.5% in March. Year over year, existing home sales are down 17.2%. April's decline in existing home sales is the largest month-over-month drop since July 2010 (-22.5%). The median sales price for existing homes was \$286,800 in April compared to \$280,600 in March. Existing home prices were up 7.4% from April 2019. Total housing inventory at the end of April represented a 4.1-month supply at the current sales price. Sales of new single-family homes followed a 15.4% decline in March by climbing 0.6% in April. Sales

are 6.2% below the April 2019 estimate. The median sales price of new houses sold in April was \$309,900 (\$321,400 in March). The average sales price was \$364,500 in April (\$375,300 in March). Available inventory in April sat at a 6.3-month supply, essentially the same rate of availability as in March.

- **Manufacturing:** Industrial production plummeted 11.2% in April after falling 5.4% in March. The April decline was the largest monthly drop in the 101-year history of the index, as the COVID-19 pandemic led many factories to slow or suspend operations throughout the month. Manufacturing output dropped 13.7%, its largest decline on record, as all major industries posted decreases. The output of motor vehicles and parts fell more than 70.0% while production elsewhere in manufacturing dropped 10.3%. Utilities and mining decreased 0.9% and 6.1%, respectively. Total industrial production was 15.0% lower in April than it was a year earlier.
- New orders for durable goods followed a 16.6% decrease in March with a 17.2% drop in April. Over the last 12 months, new orders for durable goods are down 11.4%. While most manufacturers of durable goods saw orders fall, hardest hit sectors included motor vehicles and parts (-52.8%), transportation equipment (-47.3%), and defense aircraft and parts (-32.7%). New orders for capital goods (manufactured assets used by businesses to produce consumer goods) fell 1.8% in April, dragged down by defense capital goods as new orders for nondefense capital goods rose 8.2%.
- **Imports and exports:** Import prices fell 2.6% in April following a 2.4% decline in March. The April decrease in import prices was the largest decline since import prices fell 3.2% in January 2015. Since April 2019, import prices have fallen 6.8%, the greatest year-over-year fall since import prices dropped 8.3% for the 12 months ended in December 2015. Fuel imports plunged 31.5% in April, the largest monthly decline in the history of the index. Prices for exports dropped 3.3% in April after a 1.7% decline in March. This is the largest monthly decrease in export prices since the index was first published. Prices for exports decreased 7.0% on a 12-month basis from April 2019, the largest over-the-year decline since a 7.3% drop for the year ended September 2015.
- The international trade in goods deficit was \$69.7 billion in April, up \$4.7 billion, or 7.2%, from \$65.0 billion in March. Exports of goods for April were \$95.4 billion, \$32.2 billion less than March exports. Imports of goods for April were \$165.0 billion, \$27.5 billion less than March imports.
- The latest information on international trade in goods and services is for March and shows that the goods and services trade deficit was \$44.4 billion, an increase of \$4.6 billion, or 11.6%, over the February deficit. March exports were \$187.7 billion (\$207.7 billion in February). March imports were \$232.2 billion (\$247.5 billion in February).
- **International markets:** As more countries relaxed COVID-19 restrictions, economies and stock markets began to slowly show favorable movement. The European Union proposed a 750 billion euro recovery fund. The news in other countries was not as good. Brazil lost more than one million jobs over the past two months due to the pandemic. Security restrictions from China and the COVID-19 virus have stunted economic growth in Hong Kong. That country's first quarter gross domestic product fell 5.3% from the prior quarter. In China, industrial production continued to recover in April, albeit at a moderate pace.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® held steady in May following a sharp decline in April. The index climbed slightly to 86.6 from April's 85.7. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — fell from 73.0 to 71.1. However, the Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, improved from 94.3 in April to 96.9 in May.

Eye on the Month Ahead

April's economic data was generally dreary. As more states eased restrictions put in place to help combat COVID-19, May should show a slight uptick in some economic sectors.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be

successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

IMPORTANT DISCLOSURES

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