Weekly Market Update – 4/27/20: Slow Process of Re-Starting Commerce Begins

Major Indices (Price Returns)	Close	Last Week	Qtr-to-Date	Trailing 12-Months	All-Time High	% from High
S&P 500	2,836.74	-1.32%	9.76%	0.08%	3,386.15	19.4%
Dow Jones Industrial Average	23,775.27	-1.93%	8.48%	-8.31%	29,551.42	24.3%
NASDAQ Composite	8,634.52	-0.18%	12.14%	11.71%	9,817.18	13.7%
Russell 2000	1,233.05	0.32%	6.93%	-19.92%	1,740.75	41.2%
MSCI EAFE (USD)	1,588.69	-2.07%	1.87%	-15.29%	2,388.74	50.4%
MSCI Emerging Markets (USD)	879.41	-2.43%	3.63%	-16.89%	1,338.30	52.2%
Bloomberg Commodity Index	60.24	-2.99%	-2.62%	-25.71%	237.95	295.0%
Barclays U.S. Aggregate Bond	110.00	0.20%	1.67%	7.51%	111.53	1.4%

Source: FactSet

Parts of the U.S. economy will reopen this week as states ease restrictions, yet health care protocols must continue to be strictly followed. This is great news for workers and businesses, but the process will be slow at first as individuals assess potential exposure. With evidence building that the COVID-19 infection curve has flattened across the country, many U.S. Governors are presenting plans to allow certain non-essential businesses to reopen. A handful of states have started the process this week, more than 10 others will join in early May; and, by late May, nearly all states are expected to enact variations of eased business restrictions. Despite some objections to restarting commerce too quickly, we believe that this can be done successfully if businesses take proper precautions and follow protocols to protect their employees and customers. Most states will continue to discourage mass gatherings, and restrict reopening in a range of entertainment-related businesses. We believe that consumer activity will remain subdued initially, and the pace of growth is likely to be inversely correlated with how COVID-19 spreads. If following precautions keeps the spread manageable, consumer sentiment should improve through June and into the summer months. Additional crucial factors to restoring consumer confidence are testing, isolation of infected persons, and contact tracing. Testing has improved substantially the past two weeks and is important so that COVID-19 cases are identified. Contact tracing is controversial in the U.S. due to privacy issues, but is likely to be implemented in some form, especially in urban areas. Reopening the economy is necessary and we hope that successes in one city or state can be applied to others, and that setbacks can be addressed as well. We expect economic activity to improve modestly in May, with a bigger surge in June. Our view is that U.S. equities have largely anticipated this move, making the market vulnerable to renewed COVID-19 spread that alter expectations regarding the pace of the recovery.

The price of U.S. oil prices plunged to new lows last week, and the near-term futures contract dropped below zero for a day, due to a massive supply-demand imbalance. West Texas Intermediate (WTI) closed at $16.50 per barrel last week, down from $25.00 the week prior. On 4/20/20, the WTI May futures contract traded in negative territory, dropping to -$37.00 per barrel, as the contract was expiring the next day and traders feared that oil delivered in May could face a lack of storage capacity. WTI futures are priced based upon physical delivery to Cushing, OK, and reports indicate that U.S. storage capacity is nearly full. Cash oil prices did not turn negative and neither did futures contracts for delivery in June and beyond, but the volatility has highlighted extreme demand destruction caused by COVID-19. Global oil demand in 2019 was 100.5 million barrels per day (mbpd) and the International Energy Agency (IEA) estimates that April demand will fall by 29mbpd and June will remain down 15mbpd. The IEA believes that OPEC's announced production cuts of 10.7mbpd and expected reductions of 3.5mbpd in the U.S and Canada, will return global supply-demand to a balance in the second half of 2020. Oil prices are expected to remain low for several months. The S&P 500 Energy sector has rallied 46% from its late March lows, but remains down 42% in 2020.

It will be a busy week for data highlighted by the first report of U.S. Q1 GDP, and 34% of the S&P 500 scheduled to report earnings. First quarter GDP is expected to decline 4.0% in Wednesday's report, reflecting a sharp March contraction. This will be a precursor to a larger decline in Q2. We expect quarterly declines in consumer spending, business investment, and trade to overwhelm positive contributions from government spending and residential investment. This will be the busiest week for 1Q20 earnings results with172 of the S&P 500 companies reporting. Consensus estimates reflect expectations for year-over-year revenue growth to be flat, and EPS to decline 15.7%.

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