Stocks Regain Ground as States Discuss Plans to Reopen

Globally, billions remain at home under some variation of COVID-related lockdowns and social distancing, a phrase many of us hadn't heard or used up until this year. Unsurprisingly, this has affected just about every industry, from restaurants to airlines to the oil industry. Oil demand has dropped precipitously, prompting prices to briefly turn negative in April for the first time in history. While prices have begun to stabilize and governments are starting to ease lockdown policies, it will take a long time for oil demand to fully recover, explains Raymond James Energy Analyst Pavel Molchanov. "We anticipate COVID's oil demand impact peaking in the second quarter, and then subsiding in the summer and especially toward the end of the year," he added.

Reopening state economies is a leading theme in the news, however, we believe that doing so will need to be done carefully and deliberately, most likely in phases, according to Washington Policy Analyst Ed Mills. Federal reopening guidelines are more restrictive than some might think in an attempt to stave off a resurgence in cases, which, of course, would hinder a return to large-scale economic normalcy. The timing of an economic restart remains up in the air, and there are still challenges around therapies, a possible vaccine, the impact on consumer behavior and the general trajectory of an economic recovery, adds Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy.

In the meantime, the policy response has thus far activated close to $3 trillion to help people in need and bolster the economy, but lawmakers are not done yet. The scope and scale of another fiscal relief package will be heavily debated, but additional support for individuals, markets and the economy should arrive over the next few weeks, Mills notes.

Despite deteriorating economic data (e.g., U.S. jobless claims increased by 26 million over a four-week span; consumer confidence declined to multi-year lows) as a result of stay-at-home orders to combat the coronavirus, risk assets moved sharply higher during April, explains Chief Investment Officer Larry Adam. Investors looked through the near-term halt in economic activity with increased optimism for a potential coronavirus therapeutic (Remdesivir). Market observers are also seeking more clarity regarding a timeline for the reopening of the U.S. economy.

Record stimulus and a slowing of new COVID-19 cases has proved a more stable environment for U.S. equities, explains Madere. Stocks have continued to push higher, although they haven't yet made up for the deep losses of last month and still ended April in negative territory. The S&P 500 climbed about 12.68% for April, while the Dow Jones rose about 11% and the Nasdaq delivered 15.45%.

	12/31/19 Close	4/30/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	24,345.72	-4,192.72	-14.69%
NASDAQ	8,972.61	8,889.55	-83.06	-0.93%
S&P 500	3,230.78	2,912.43	-318.35	-9.85%
MSCI EAFE	2,036.96	1,664.94	-372.02	-18.26%
Russell 2000	1,668.47	1,310.66	-357.81	-21.45%
Bloomberg Barclays Aggregate Bond	2,225.00	2,335.43	+110.43	+4.96%

Performance reflects price returns as of market close on April 30, 2020.

Here is a look at some key factors we are watching, both here and abroad:

Economy

- As mentioned above, economic data has taken a hit. Real gross domestic product fell at a 4.8% annual rate in the advance estimate for the first quarter, reflecting sharp declines in consumer spending (-7.6%) and business fixed investment (-8.6%), notes Chief Economist Scott Brown. Second quarter figures are expected to be much worse, as one in six American workers filed a claim for unemployment benefits over the six weeks ending April 25.
- Following the April 28-29 policy meeting, Federal Reserve officials left short-term interest rates unchanged and retained their guidance that rates will remain low until the economy is firmly back on track. Fed Chair Jerome Powell said that the central bank will use its full range of tools to support the economy.
- The economic outlook depends critically on the virus and efforts to contain it. As the economy begins to re-open, consumer spending will pick up, but gradually, and there is a risk of a second wave of infections that could lead to a longer period of social distancing. Once the virus is truly under control, the economy should improve significantly, but consumers may be reluctant to resume normal activities, Brown adds.

Equities

- After dropping 34% from late February to late March, the S&P 500 has been able to recover over half of its losses since then, but Madere believes the move has been too far, too fast. It is likely, in his view, that we'll see a consolidation where the market can rebuild itself for a more durable path higher.
- Earnings seasons is moving along, and the S&P 500 is expecting earnings contraction for the first quarter, mostly from the Energy, Consumer Discretionary,

Financials, Industrials and Materials sectors. We've seen better performance from Health Care, Technology and Consumer Staples names.

International

- Global equity markets outside of the United States also continued to build upon the stabilization seen toward the tail end of March, predominately on investor confidence about the economic outlook, according to European Strategist Chris Bailey.
- COVID-19 cases appear to have peaked across most of Europe and East Asia. While we have seen unprecedented downward revisions to economic data as well as a large demand for wage subsidies and unemployment assistance, hopes of recovery have been boosted by both the magnitude of government/central bank responses and also the lack of a secondary infection wave in East Asia.

Fixed income

- The bond market has calmed down considerably over the last couple of weeks. The 30-year Treasury is down 9 basis points from last month's close, while all other yield curve points are within 3 basis points of where they closed in March. Municipal and corporate spreads have narrowed for the month, yet remain wide vs. pre-crisis levels, according to Chief Fixed Income Strategist Kevin Giddis and Doug Drabik, managing director for fixed income research.
- Despite Treasury rates falling, municipal and corporate bonds have kept positive sloped curves with relatively wide spreads to maintain yield.
- Demand for high-quality credits is strong. The market is also easing on concerns for the lesser credits as the government continues to provide support to facilitate more normalized trading. Government stimulus is contributing to lower yields and spreads as they bridge the dislocation, making loans more readily available for small to large businesses and municipalities.
- Interest rates on Treasuries are near historic lows across the yield curve and reinvestment risk is limited. New cash and cash flows for longer term strategic fixed income allocations may serve investors' interests by pulling in maturities and reducing durations. Shorter holding periods will produce quicker reinvestment periods, thus positioning investors more strategically for an economic cycle turnover.

Bottom line

- Long-term investors may want to consider reserving some buying power to strategically add to positions during pullbacks.
- From a fixed income perspective, this is a period to stick with high quality and conservative maturities, in general.

We know life may feel very different from “business as usual” these days, but we hope you take some comfort in knowing your financial plan was tailored to your risk tolerance and ability to handle market volatility. Know, too, that we are thinking of you and your family and wishing you all good health.

As always, please reach out with any questions you may have – about the markets, your financial plan or anything else that we may be able to help with. We want to hear how you’re holding up and look forward to speaking with you. Thank you for your trust in us.

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