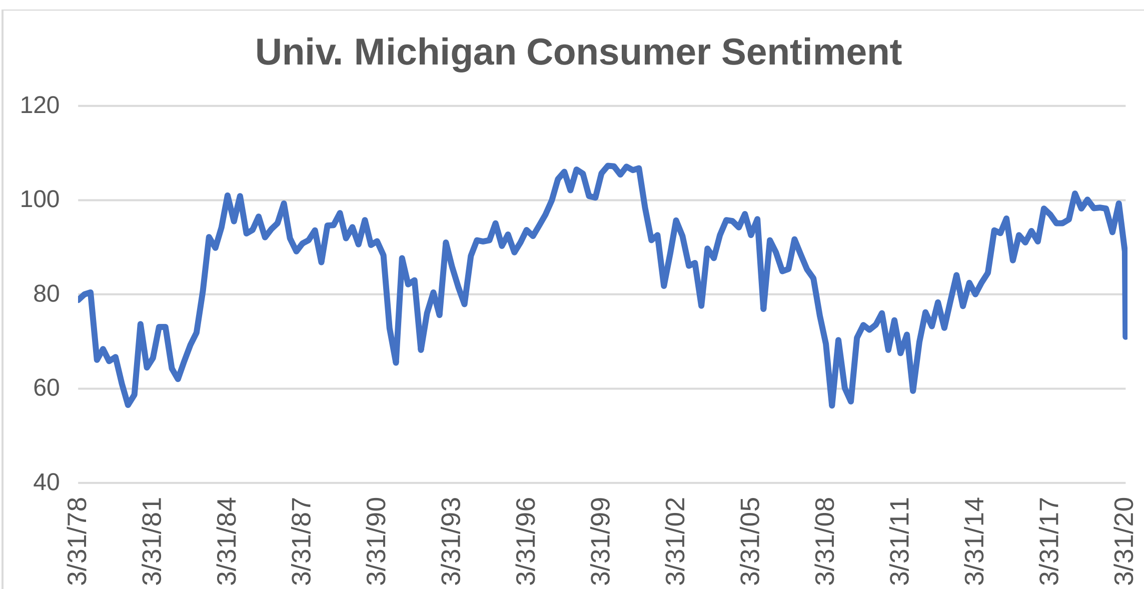
AndCo's Weekly Market Update

April 13, 2020

THE ECONOMY

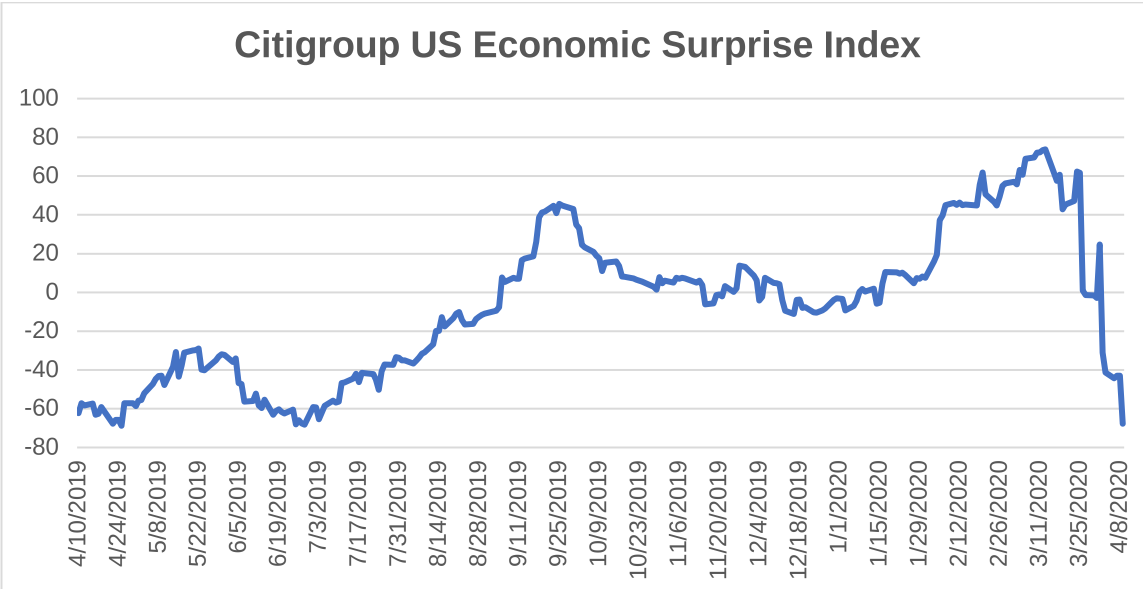
As the global pandemic and response to COVID-19 (Coronavirus) drags on, labor markets in the US remain under pressure. For the week ending April 4th, according to the Department of Labor, weekly initial jobless claims came in at 6.6 million, down slightly from last week's revised 6.9 million claims. The four-week moving average of initial claims now stands at 4.3 million while continuing claims jumped to 7.5 million. Given the significant increase in new and continuing claims it is expected that the US unemployment report for April will move higher than the 4.4% reported in March.

Given the recent weakness in the US labor market, the outcome of Thursday's University of Michigan Consumer Sentiment report was largely expected. The report showed a decline of 18 points which is the largest monthly decline recorded by the survey. To illustrate the magnitude of the decline, the survey's two-month decline of 30 was 50% larger than the previous record. Importantly, the survey's measure of 71 is the lowest reading since 2011. Historically, steep declines in the survey have been highly correlated with consumers' expectations of future economic growth.



Source: Bloomberg as of April 9, 2020

It is expected that the US economy contracted during the 1st quarter of 2020. According to a recently conducted survey by Bloomberg, the US economy will contract by roughly 3.0% during the quarter. While the initial GDP report is not due until later in April, we can look at the Citigroup US Economic Surprise Index to illuminate the potential direction of the economy. The index measures economic data surprises relative to market expectations, both positive and negative. A positive reading on the index means that recent data releases have been stronger than expected, which suggests positive economic growth. A negative reading suggests recent weakness. Looking at the chart, recent economic activity has declined significantly in response to the Coronavirus with a reading of -67.7 on April 9th. While the index has historically been volatile, it has provided a good measure of the overall direction of the US economy.



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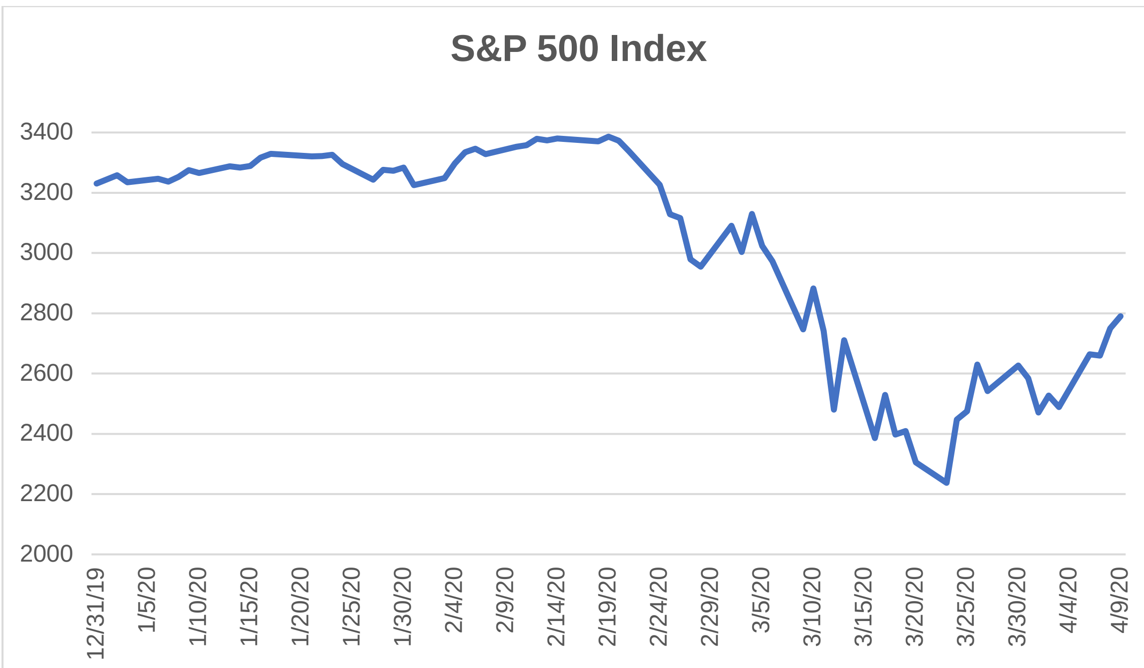
EQUITIES

With investors' attention focused squarely on the Coronavirus, most probably didn't realize that the holiday-shortened week ending April 9th was the best on record since 1974. The S&P 500 Index climbed roughly 12.1% through Thursday. While investors may still be feeling the pain from the recent sell off, the market has rallied more than 24.0% since the market low on March 23rd. It certainly doesn't hurt that the Federal Reserve Bank (Fed) has committed to adding near-unlimited amounts of stimulus to the system. As evidence, it was announced on Thursday that the Fed would commit an additional $2.3 trillion to help stabilize the US economy. Importantly, there are signs that the Coronavirus may be near its peak. Once the government deems it safe, the US economy should open, and the focus will shift to the underlying fundamentals of the market.

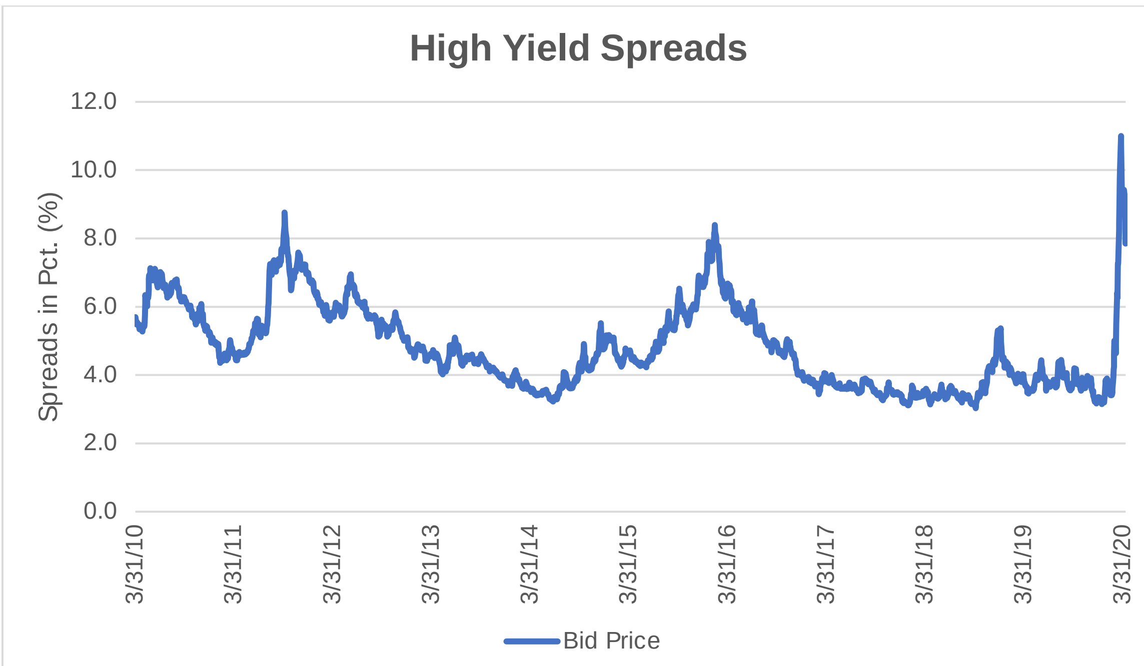


Source: Bloomberg as of April 9th, 2020

International equities also had a good week. The MSCI ACWI ex-US Index was up roughly 7.7% while the MSCI Emerging Market Index was up roughly 6.7%. With the hope that the Coronavirus is near its peak, investors are closely watching to see if some agreement can be reached by European Union finance members regarding an economic stimulus package.

FIXED INCOME

Similar to US stocks, credit markets also enjoyed a strong week of performance fueled mostly by the Fed's announcement. The additional stimulus allows the Fed to purchase corporate bonds including those that recently were downgraded to below BBB, or high yield. These "fallen angels" were previously rated investment grade prior to March 22nd. In addition, the Fed will also now purchase shares of investment grade and high yield bond ETFs in an effort to provide broad-based exposure to the corporate bond market. As a result, corporate credit spreads narrowed significantly on the news. In particular, high yield bond spreads narrowed to roughly 785 basis points over comparable US Treasury bonds. While high yield spreads have narrowed significantly from their recent peak of nearly 1,100 basis points over Treasury bonds, they remain elevated when compared to the long-term average of roughly 500 basis points over Treasuries and still offer investors a compelling opportunity at current levels.



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