

Thursday, May 28, 2020

Good Afternoon,

This week has seen markets continue to advance based on enthusiasm for reopening the economy and new, big pharma entrants into the vaccine testing arena (Merck and Novartis). The strong animal spirits are being bolstered by less 'bad news' and more 'good news' as it relates to COVID-19. However, it is all just news and there is a wide gap between stock performance and economic reality. We are also watching a recent trend as the strong performance of the technology sector since the lows of March has slowed and some laggards (energy, financials, etc.) have gained momentum.

Congress is now debating additional relief packages for the US economy. There is real concern that the emergency bill they passed in March has created a disincentive for some return to work. An estimated 65%-75% of out-of-work Americans who are receiving unemployment benefits are being paid more money per week than they were receiving pre-pandemic from their employment (source: J.P. Morgan "Eye on the Market"). There are accounts of employers having difficulty reopening, even partially, as employees cite higher income with unemployment benefits, as well as concern for their health and safety. Can we successfully reopen under these circumstances?

Oil prices seem to have stabilized after recent wild instability. In the past month, the price of West Texas Intermediate crude oil closed at \$33.25 a barrel on Friday 5/22/20, up from \$13.78 a barrel just a month earlier on 4/22/20 (source: NYMEX). While cheap gas is great for consumers, the crash in oil prices threatened the energy sector and the many areas of the economy that support it. Oil priced in the \$35-\$45 per barrel range is a point of health for the overall economy. Other economic indicators (GDP, unemployment, retail sales, etc.) are not likely to stabilize until later in the year.

If you're looking for a weekend project to kill a few hours, try changing your duvet cover by yourself. It was a half-day project for me!

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Enjoy your weekend!

Wade

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