

Thursday, May 7, 2020

Good Afternoon,

Last week we witnessed a sharp selloff on Thursday and Friday which produced some “here we go!” thoughts for investors. With potential medical advances being announced over weekend (emphasis on potential), this week stocks have resumed the rally from March. We are starting to see limited “re-openings” in some states and it’s too soon to tell if that moves the needle on economic activity in those regions. While we continue to cheer the stock rally, our mistrust in its staying power persists. Our economy has a very long and bumpy road ahead.

The odds of a near-term market decline remain high. The rough first quarter GDP report will pale in comparison to what we expect to see in the second quarter. Growth fell 4.8% in the first quarter, the first contraction since 2014 and the worst number since 2008. We expect second quarter growth could fall by 25% or more. Unemployment continues to soar. Tomorrow we’ll see the April labor report, which is based on readings in the middle of the month. We think it will probably show an unemployment level of at least 15%, but factoring in the additional weeks of unemployment claims, we think the actual current rate is around 20% and rising.

As well as staying in place, I’ve heard from many of you that you are also ‘saving in place’. Other than some online shopping and groceries, there’s nothing to spend on. That’s good news and bad; savings are growing while the economy shrinks. While we hear about the impact on local businesses, we may forget about the impacts to State and local governments. According to the Center on Budget and Policy Priorities, sales taxes make up on average 32% of state tax revenue collected in the US. How will they make up the expected shortages?

More observations:

- We need haircuts. The USA Today, Friday April 24 – dedicated full page to how to cut your own hair. For me, it might as well have been how to do your own appendectomy.
- Courtrooms are closed, but did you notice all the lawyer ads on TV? With business being slow, maybe soon they’ll start suing each other.
- There’s been a run on 80-inch televisions for \$1,200 – made in Korea. Hmmm.....

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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.

Have a great weekend and Happy Mother’s Day!

*Wade*

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