

# MONTHLY ECONOMIC UPDATE

June 2020

## MONTHLY QUOTE

*“The older I get, the smarter my father seems to get.”*

- Tim Russert

## MONTHLY TIP

*Updating your will is as important as having one. If you drafted a will years ago, it may likely need some adjustments. Revisit your will often and keep it up to date.*

## THE MONTH IN BRIEF

### **U.S. Markets**

Stocks rallied in May, sparked by a supportive Federal Reserve, stories of states re-opening, and reported progress on a COVID-19 vaccine.

The Dow Jones Industrial Average rose 4.2%, while the Standard & Poor’s 500 Index picked up 4.5%. The NASDAQ Composite led, gaining 6.7%.<sup>1</sup>

### **Shift in Focus**

April’s positive momentum continued into May, as stocks registered healthy gains, and investors looked to future economic hopes rather than current woes.

Further aiding stocks was a better-than-expected jobs report and firming oil prices. Many investors breathed a sigh of relief on the news that U.S. and Chinese negotiators were planning to meet, despite the rising tensions between the two nations.

### **Vaccine Watch**

The World Health Organization reports that there are more than 100 vaccine candidates, with 10 currently participating in clinical trials.<sup>3</sup>

Over the next couple months, results from several of these trials may be released.<sup>4,5</sup>

Depending on the results, the trials could provide the markets with a sense of optimism. If they prove disappointing, investors may dread the prospect of a prolonged economic recovery. Either way, many investors are cautiously monitoring the situation for further developments.

# Market Behavior and the Economy

As states cautiously begin the process of relaxing their COVID-19 restrictions, some are wondering, “Why is the stock market doing so well when the economy is doing so poorly?”

It’s a great question, and fortunately, one that’s been answered before. To find the answer, we’ll need to dust off those economic textbooks of yesteryear and turn to the chapter on “lead, lag, and coincident indicators.”

“**Lead indicators**” are factors that are used to anticipate what may happen 6-9 months in the future. Think of the stock market as the foremost lead indicator. Now, imagine that the stock prices today are anticipating where the economy will be in 6-9 months. Is it correct? Despite what some may claim, no one knows for sure.

Alternatively, “**coincident indicators**” attempt to show the state of the economy right now. For example, gasoline deliveries are currently trending higher, consumer confidence appears to have stabilized, and airlines are seeing more bookings. Even the supply of toilet paper seems less of a concern these days, with Google searches for TP falling to near-normal levels.<sup>6,7</sup> This may hint at higher consumer confidence at present.

Finally, “**lag indicators**” provide insight into past economic data. They may confirm long-term trends, but they are not very good at forecasting. The consumer price index is a historically classic example of a lag indicator. It tells us what inflation was; but doesn’t provide much insight about the future.

In general, when trying to evaluate why the markets are behaving a certain way, it may be best to gather as much data as possible. Economic indicators can help provide context for what can often seem counterintuitive behavior, especially in the face of intense global disruption.

## ***The Fed***

Minutes from the last Federal Open Market Committee meeting reaffirmed a commitment to maintaining a zero interest rate policy until inflation reaches the Fed’s 2% target, and unemployment returns to its pre-COVID-19 level.

The Committee also focused on how they expect to use upcoming meetings to communicate about future policy decisions.

The minutes also reinforced recent comments that the Fed was not inclined to move toward negative rates.<sup>8</sup>

<b>MARKET INDEX</b>	<b>Y-T-D CHANGE</b>	<b>May 2020</b>
DJIA	-11.06%	4.26%
NASDAQ	5.76%	6.75%
S&P 500	-5.77%	4.53%

<b>BOND YIELD</b>	<b>Y-T-D</b>	<b>May 2020</b>
10 YR TREASURY	-1.27%	0.65%

Sources: Yahoo Finance, May 31, 2020

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CITATIONS:

- 1 - The Wall Street Journal, May 31, 2020
- 3 - Who.int, May 27, 2020
- 4 - CNBC.com, May 13, 2020
- 5 - NBCnews.com, May 8, 2020
- 6 - MarketWatch, May 20, 2020
- 7 - MarketWatch, May 20, 2020
- 8 - The Wall Street Journal, May 20, 2020