WEEKLY UPDATE

CARY STREET PARTNERS

MAY 11, 2020

EQUITY MARKETS

Equity markets continued to ebb and flow this week, with the S&P 500 posting a 3.50% gain for the last five days. The market has circulated around the 2900 level for the S&P following the large relief rally off– of the March 23rd low. Good earnings from large constituents within the index have been a primary driver of that index holding up relatively well in the face of COVID dominated economic news. The list of large, technology-centric companies include Google, Facebook, Microsoft, Apple, and Amazon. Those names comprise over 20% of the S&P. In contrast, as previous reported, the entire U.S. energy complex has only about half the market value of one of those names, Microsoft.

Given that those five reported quarterly earnings over the last week of April, markets will re-sharpen their focus on medical progress related to COVID. Beyond various state efforts to re-open their economies, markets will be paying attention to treatment related news expected out of certain companies around the end of May. Prime among those expected to release news will be Gilead, regarding its Remdesivir treatment.

Forward volatility indications have continued to work lower. The CBOE Volatility Index (VIX) is currently about 28, with a ten-week moving average calculation of 46.[1] While this is still elevated, and can certainly move up on any given day, the trend of lower volatility readings decrease the odds of stocks re-testing the low of March 23rd.

CREDIT MARKETS

Assets in money market funds have soared to a record $4.77 trillion amid a flight to safety.[2] Three quarters of this money is in government securities. Twelve months ago, yields on money market funds were above 2%.[3] Currently, the average yield on the 11 largest government funds is 0.2% and the current average yield for the 11 biggest prime funds is 0.64%, according to State Street Advisors.

Some investment companies have been closing money market funds to new investors. It is likely that management fees will have to be reduced or eliminated for funds to offer a positive yield.[4]

The municipal bond market is seeing rising yields on debt sold by municipalities that are forecast to be the hardest hit by plunging revenues and rising unemployment costs. The state of Illinois 10-year benchmark bond is currently yielding 5.5%. The State of New York 10-year benchmark bond yield is 1.4% and the State of California 10-year benchmark bond yield is 1.8%.[5]

The New York Fed announced that it will begin buying corporate debt ETFs in early May through its Secondary Market Corporate Credit Facility.

ECONOMIC NEWS

March factory orders fell 10.3%, more than the expected 9.7% decline. This miss reflects a revision and weaker than expected nondurable goods orders.[6]

[1] Fairlead Strategies
[2-4] Bloomberg
[5] Bloomberg as of 5/5/2020
[6] U.S. Census Bureau

CONTINUED...

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 5.8.2020
US EQUITY BENCHMARKS	
S&P 500 TR USD	-8.68
DJ US TR USD	-9.11
RUSSELL 1000 TR USD	-8.81
RUSSELL 1000 VALUE TR USD	-19.03
RUSSELL 1000 GROWTH TR USD	0.80
RUSSELL 2000 TR USD	-19.92
INTERNATIONAL EQUITY BENCHMARKS	
MSCI FV ACWI EX USA NR USD	-17.89
MSCI FV ACWI NR USD	-12.62
US FIXED BENCHMARKS	
BBGBARC US TREASURY BILLS TR USD	0.64
BBGBARC US AGG BOND TR USD	4.52
BBGBARC US TREASURY US TIPS TR USD	4.47
ICE BOFA US HIGH YIELD TR USD	-9.20
ICE BOFA US MBS TR USD	3.64
INTERNATIONAL FIXED BENCHMARKS	
BBGBARC GLOBAL AGGREGATE TR USD	0.78
US FIXED MUNI BENCHMARKS	
BBGBARC MUNICIPAL TR USD	-0.79
REAL ASSETS	
FTSE NAREIT ALL EQUITY REITS TR USD	-17.88
SPDR® GOLD SHARES	11.73
ALTERNATIVE	
WILSHIRE FOCUSED LQD ALTERNATIVE TR USD	-4.55

Source: Bloomberg

The non-manufacturing Institute for Supply Management (ISM) index decreased to 41.8% from 52.5%, exceeding market expectations of 38.0% for the month of April. The service sector contracted in April for the first time since December 2009. Respondents to the survey were concerned about the continuing coronavirus impact on supply chains, as well as the uncertainty regarding timelines for the resumption of business and the return to normal activities.[7]

Initial jobless claims totaled 3.169 million in the week ending May 2. This is above expectations of 3.0 million. Continuing claims increased by 4.6 million to 22.647 million in the week ending April 25. Jobless claims peaked the last week in March at 6.9 million and have fallen each week since.[8]

April nonfarm payrolls fell 20.5 million about as expected. The unemployment rate rose to 14.7%. These losses and unemployment rate are the highest in the post-World War II era.[9]

- Average hourly earnings rose 4.7% in April
- The average hourly workweek increased
- Government jobs were reduced by 980k at state and local level
- Private service industries reduced 17.2 million jobs
    - Trade and transport cut 3 million jobs
    - Retail cut 2.1 million jobs
    - Business services cut 2.1 million jobs
    - Education and health related employers cut 2.5 million jobs
    - Leisure and hospitality cut 7.6 million jobs

[7] Institute for Supply Management
[8] Department of Labor
[9] Bureau of Labor Statistics