



Looking Back at the Markets in May and Ahead to June 2020

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May was a good month, in terms of the virus, the economy, and the markets. But what does this positive news mean for the month ahead? Let's take a closer look.

A look back

Flattening of the curve. For the virus, the growth rate of infections dropped from 3.3 percent per day on May 1 to 1.2 percent per day on June 1—a significant improvement. Actual case growth dropped from 36,007 to 22,152 per day over the same period. Plus, testing increased from under 300,000 per day to more than 400,000 per day. After the panic of March and April, May was the month that the curve was flattened: viral growth rates and case counts came down to levels that the health care system could support, while testing started to get ahead of the demand.

Economies reopened. In fact, the improvement in the virus was so substantial that states around the country started to reopen their economies during the month. Forty-two states had imposed statewide stay-at-home orders by early April; of those, 37 expired during April or May, with the rest expiring throughout June. While some restrictions remain in place, the expiration of the stay-at-home orders has allowed businesses to reopen, employees to return to work, and consumers to shop again.

Worst of job losses behind us. May's reopening has gone much better than expected. From a jobs perspective, new layoffs continued to decline during the month, and the continuing claims data suggested that a substantial number of employees had returned to work. The May jobs report from ADP (a large payroll company) also showed improvement, with job losses coming in at 2.76 million. This number was not great, but it was much better than the 9 million losses expected. The worst of the job losses ended in May, and improvement looks to be underway.

More signs of improvement. Other May developments were also hopeful. Apple's Mobility Trends report, which tracks requests for directions in Apple Maps, was down 60 percent from the start of the pandemic in April, was down 30 percent at the start of May, and had fully recovered by the start of June. Mortgage applications moved above the pre-pandemic levels, suggesting the housing market was recovering, and auto sales improved significantly from April levels. All in all, May showed the economy opening faster and more smoothly than expected.

Markets up around the world. Market action reflected this improvement. For the second month in a row, markets were up around the world. U.S. markets were up between 4 percent and 7 percent, while international markets were up from just under 1 percent for emerging markets to just over 4 percent for developed markets. Stock markets around the world continue to expect a smooth recovery. Based on May's data, this outcome remains a real possibility.

A look ahead

Second wave of infections. Looking forward into June, the signs are good, but there are risks we must watch for. The biggest risk is a second wave of viral infections. While the improvement in the data in May was real, that improvement also slowed during the past week, and case growth and infection rates are holding steady instead of continuing to decline. This data suggests that reopening has generated additional infections. There is also a real possibility that as the reopening proceeds, we could see an acceleration of the virus. Further, the recent protests provide another opportunity for the virus to spread faster. If we make it through June without a material second wave, that will be a positive sign for the rest of the summer at least.

Jobs and spending. The other major risk is that the improvement in jobs and spending pauses. While this pause is certainly possible, June should demonstrate whether the apparent wave of people returning to work is more than a mirage. More likely, in the absence of a second wave of infections, the economy will open even further and bring more people back to work. There were signs that was the case through May, and we should know more by the end of this month. The trends

look favorable.

Market trends. Similarly, the trends for financial markets are also favorable. The major U.S. indices all closed out May above their long-term trend lines, which historically has been a positive sign. With investors regaining confidence and the economy continuing to improve, prospects remain solid.

Have we reached a turning point?

May could well end up being the turning point for the viral crisis. The month ended with the virus seemingly under control and with the economy reopening faster than expected. June will tell us whether that trend continues. But right now? Things look much better than we could have expected a month ago.

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