



# Looking Back at the Markets in June and Ahead to July 2020

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June was a mixed month. The national reopening in May and June led to new viral outbreaks and a spike in new infections in multiple states. Surprisingly, though, both the economic recovery and financial markets did very well. As we enter July, the question of many minds is whether the medical situation will improve—and whether the good economic and market news will continue.

## A look back

**Renewed viral outbreaks.** The bad news for the month was renewed viral outbreaks. At the national level, the daily infection rate more than doubled during June. It went from around 20,000 per day to more than 40,000 per day, and it rose to almost 60,000 per day in the first week of July. On a percentage basis, the daily growth rate went from 1.2 percent at the start of June to 1.7 percent at month-end and to more than 2 percent in the first week of July.

We're still not experiencing a national second wave. But as of the start of July, it has moved beyond the series of local outbreaks we saw in June. Arizona, California, Texas, and Florida were the worst, but multiple other states also showed much faster case growth. In fact, in several states, health care systems are at the point where they may become overloaded, as happened in New York in the first wave. At the end of May, we seemed to have the virus largely under control. At the end of June, that was no longer the case.

**Expanded testing.** There was some good news in that testing continued to expand, from around 400,000 per day at the start of June to more than 600,000 at month-end, and it continued at that level for the first week of July. The expanded testing, however, continued to lag the infection growth, as the positive testing rate rose from around 5 percent at the start of June to more than 9 percent at the start of July. This jump indicates that the pandemic continues to spread well beyond the tested population.

**Lockdowns and social distancing.** As we move into July, both the growth in new cases and the percentage growth rates are continuing to move in the wrong direction, which is no surprise as this shift reflects the policies in place two to four weeks ago. We can expect that trend to continue for much of the month. More recently, though, we have seen many states, including the outbreak states, reimpose lockdown and social distancing requirements. These measures worked in the first wave of the pandemic and should act to bring those growth rates back down. Overall, the news for much of July will continue to be bad. Toward month-end, we can hope to see infection growth stabilizing and starting to decline.

**Job gains.** While the medical news was bad in June—and will likely continue to be bad for most of July—the economic news was much better, despite the spreading wave of new infections. 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. This improvement was confirmed by the June jobs report. It showed a second month of substantial job gains, at 4.8 million, suggesting that the strong May report was not just a one-off but reflected continuing improvement.

**Improved confidence and spending.** Both consumer confidence and spending also improved substantially during June, with the Conference Board consumer confidence survey showing the largest single-month increase for the index since 2011. With people going back to work and feeling more confident, spending also did well. Retail sales were up by 17.7 percent, and spending overall was up by more than 8 percent. Business confidence also recovered significantly, with the service sector as a whole (which is seven-eighths of the economy) moving back into expansion on some surveys. Just as with consumers, business spending also showed a significant bounce.

**Economy on track.** We also saw continued improvements in higher-frequency data. Apple's Mobility Trends report, which tracks requests for directions in Apple Maps, remains above the pre-pandemic baseline. Mortgage applications remain above the pre-pandemic levels, and auto sales also improved significantly from May levels. All in all, June showed the economy opening faster and more smoothly than expected.

**Markets expect recovery.** Market action reflected this improvement. For the second month in a row, markets were up around the world. U.S. markets were up between 2 percent for the Dow and S&P 500 and 6 percent for the Nasdaq. International markets were up from just over 3 percent for developed markets to just over 7 percent for emerging markets. Stock markets around the world continue to expect a smooth recovery. Based on June's data, this outcome remains a real possibility.

#### **A look ahead**

**Risk of second wave.** Looking forward into July, improvement is likely, but there are risks we must watch for. The biggest is a second wave of viral infections. While the recent policy changes in many states should help contain the current outbreaks, that containment will not show up in the data until the end of the month. Until then, we are likely to see continued growth in new cases. And if the policies are not implemented effectively, that case growth could accelerate even further.

**Possible economic slowdown.** The other major risk is that the improvement in jobs and spending will pause. Given the size and number of states seeing renewed outbreaks, this pause is certainly possible, and some slowdown is likely. July should demonstrate how much economic damage the secondary outbreaks are causing and how much they will slow the recovery.

**Solid market trends.** Despite those risks, the trends for financial markets remain favorable. The major U.S. indices all closed out June above their long-term trend lines, which historically has been a positive sign. The rise in new cases is well known and largely priced into the market. So, with investors regaining confidence and the economy continuing to improve, prospects remain solid.

#### **Real risks, but prospects remain favorable**

June was the month when the virus came back, despite the past improvement. July will be the month when we see just how bad that damage has been—and whether the secondary outbreaks will be contained without derailing the recovery. The risks are real, and some damage will be unavoidable. But with viral control measures back in place and with job growth and confidence strong, despite the medical headlines, overall prospects remain favorable.

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