JVL Associates, LLC
NEWSLETTER

June 2020

FIRST HALF REVIEW – 2020

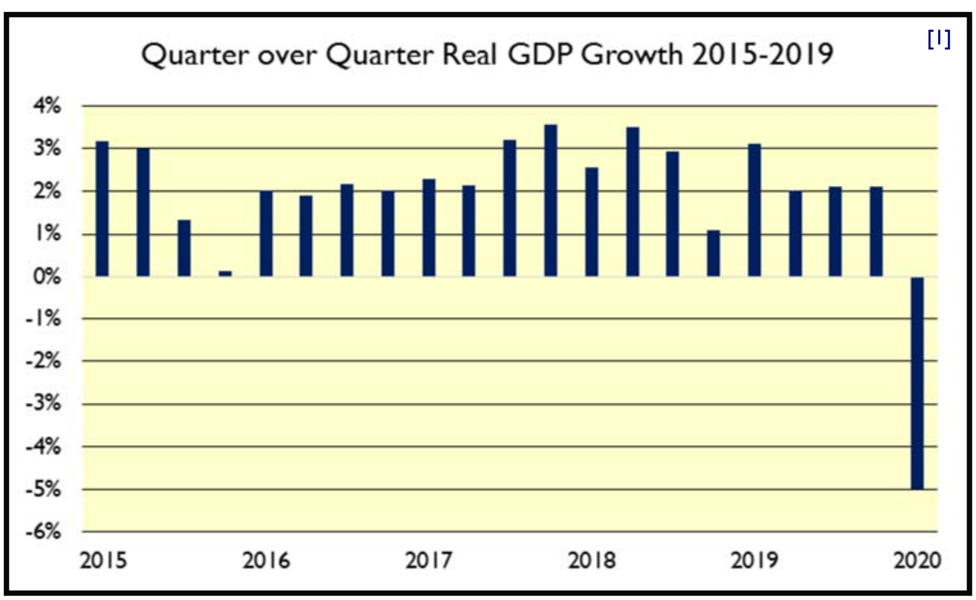
The first half of 2020 was dominated by the COVID-19 virus pandemic. The government mandated "stay at home" orders shut down almost all sectors in the economy for some period of time.

There is a saying that *"figures lie and liars figure"*. This can be applied to the economic situation today. One cannot make an accurate comparison of the current economic data with the recessions of the past. This is the first time in history that the government has precluded people from working by shutting down large sectors of the economy. Restaurants, bars, movie theatres, night clubs and fitness centers were all closed by government mandates because of the virus. Airlines, hotels, amusement parks, vacation spots have seen a dramatic decrease to their revenue streams. This was reflected in the economic data which makes analyzing the data very different from prior downturns. While the data is factual, it is a bit irrelevant when compared to data from prior periods which resulted from a freely functioning economy.

Looking out over the second half of the year there are differing ideas of how the economy will perform. G.B. Shaw is quoted as saying *"if all economists were laid end to end, they still would not reach a conclusion."* The COVID economy is cloudy, but the basic tenants of our economy are still intact. It remains to be seen what it will look like when we get to the post-COVID economy. Let's take a look at the data for the first half of the year:

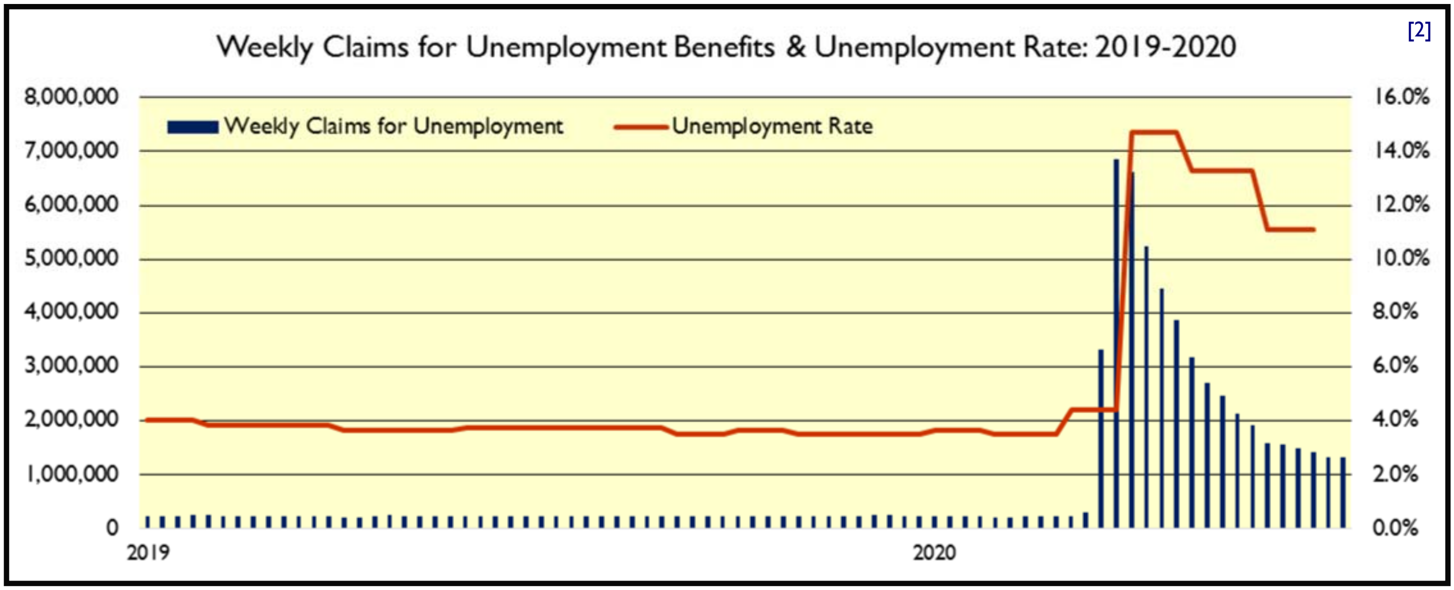
U.S. GDP Growth:

The U.S. economy, as measured by GDP, contracted by 5% during the 1st quarter of the year. This is the first contraction since the 1st quarter of 2014, and the largest contraction since the 3rd quarter of 2008. The Atlanta Federal Reserve Bank has estimated the contraction for the 2nd quarter to be 35% before rebounding during the 3rd and 4th quarters of the year. Projecting future economic conditions is difficult until the economy opens back up and people start "living life" again.



Employment:

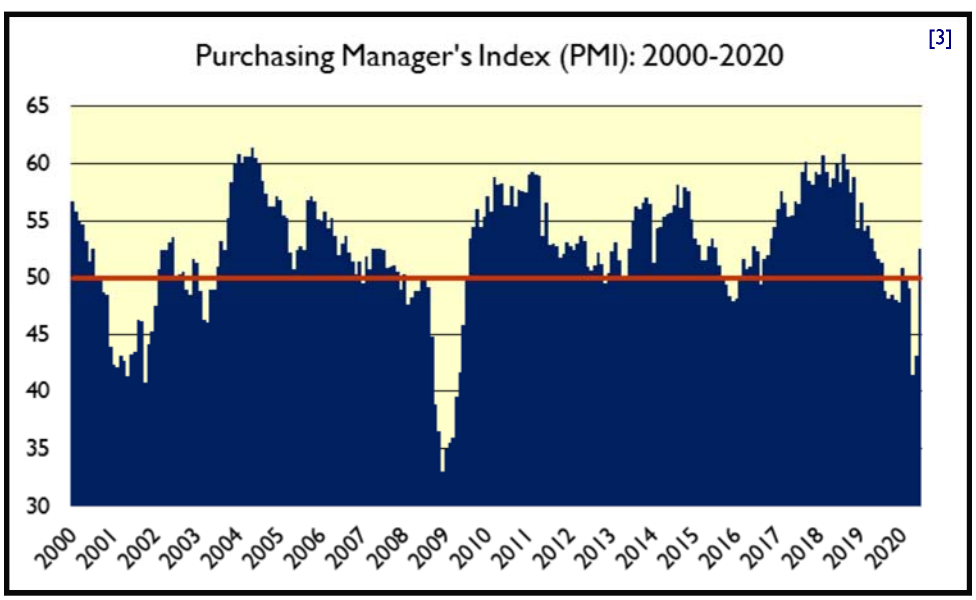
During the "great recession" of 2008- 2009, the U.S. economy shed 8.6 million jobs. These jobs were eliminated during the recession, as it took five years into the recovery to gain them back. During March and April of 2020, we lost 22 million jobs due to the government mandated shut down, but have recovered 7.5 million jobs in May and June (34% of the jobs lost). Of the jobs not recovered, 12 million are in service, 4 million in leisure and hospitality, and 1 million in retail. Most other job classifications are back to or above pre COVID levels.



The unemployment rate had dropped to 3.5% in February, but spiked to 14.7% after April, before dropping to 11.1% by June 30, 2020. Weekly claims for unemployment benefits had hovered around 200,000 - 230,000 for the past couple years before jumping to 6.7 million during the "stay at home" orders.

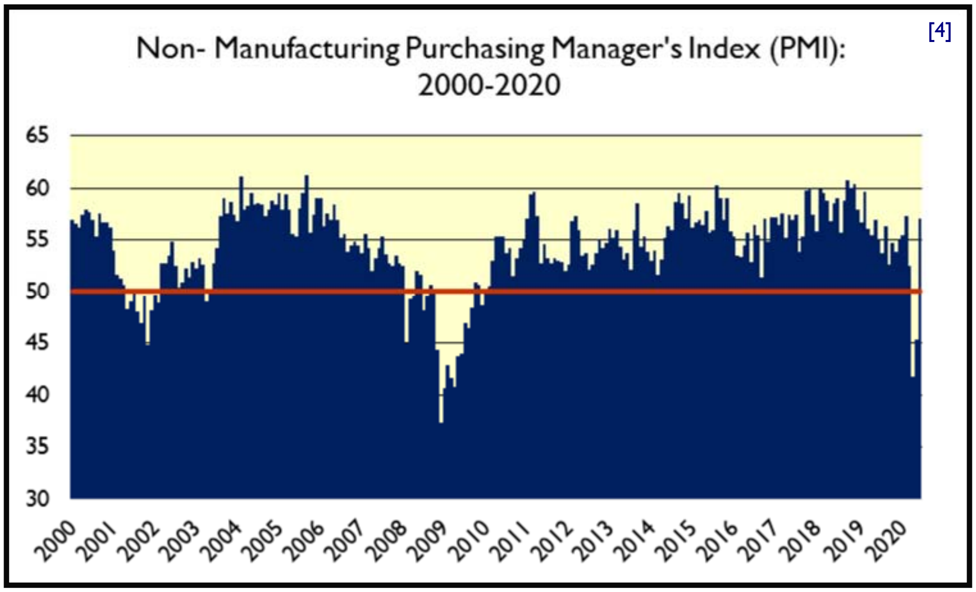
Manufacturing:

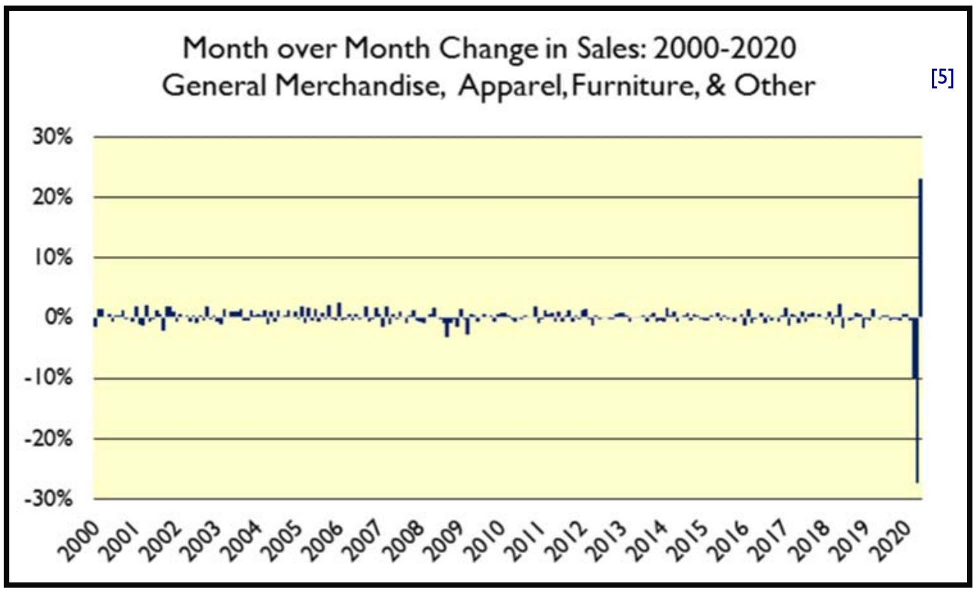
The manufacturing PMI (Purchasing Manager Index) had been showing signs of weakness during the later half of 2019. When the index is above 50, it signals an expansion in the manufacturing sector, while a reading below 50 indicates a contraction. It had been at 50 during January and February, but fell to 41 when the shut-down was mandated. As the economy began to open up, the index rose to 52.6 in June.



Service:

The non-manufacturing PMI tracks the service sector portion of the economy, which accounts for over 70% of the U.S. GDP. This index had been tracking consistently above 50 pre-COVID, but dropped to 42 during the shut-down, before recovering to 57 in June, as the economy began to open back up.



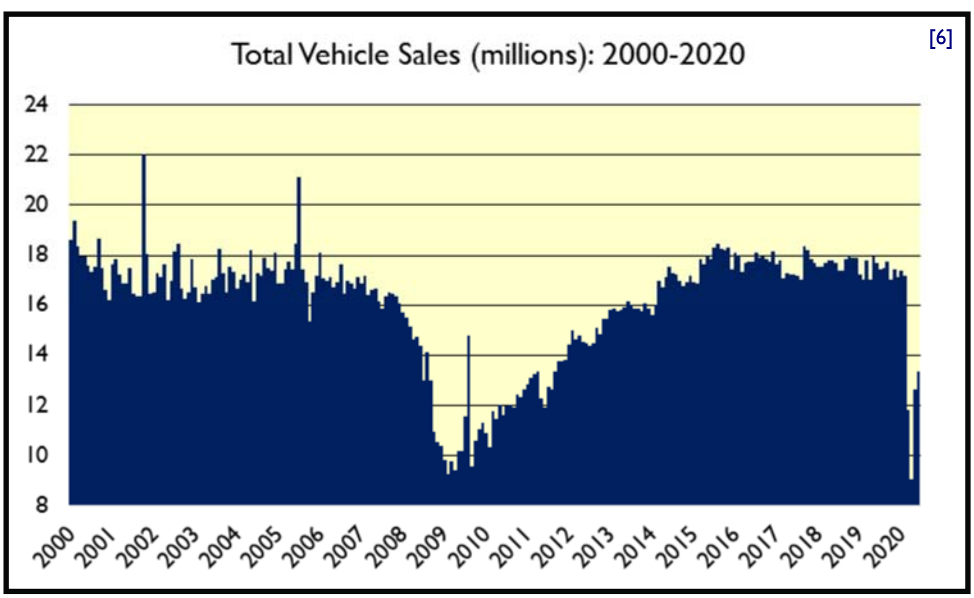


Retail:

Monthly sales of general merchandise has been relatively flat for the past couple years. Total sales dropped 10% in March and another 27% in April, before rebounding up 23% in May (June data not yet available). However, May sales were only 80% of February numbers as many locations are still in partial shut-down.

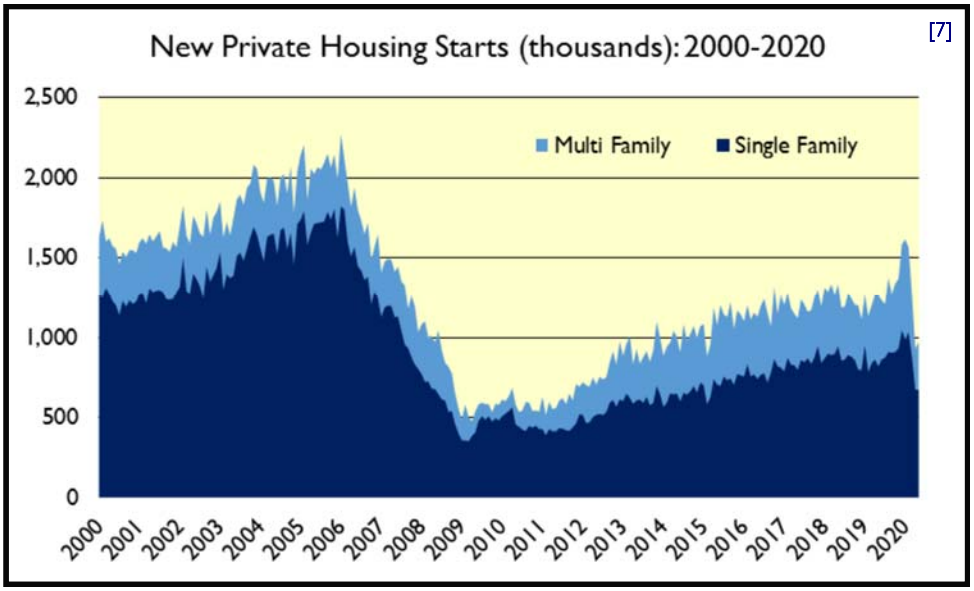
Automobiles:

The sales of cars and light trucks had been tracking around 17 million annually through February. The annualized sales rate dropped to 9 million in April, before rebounding to an annualized rate of 13 million in June.



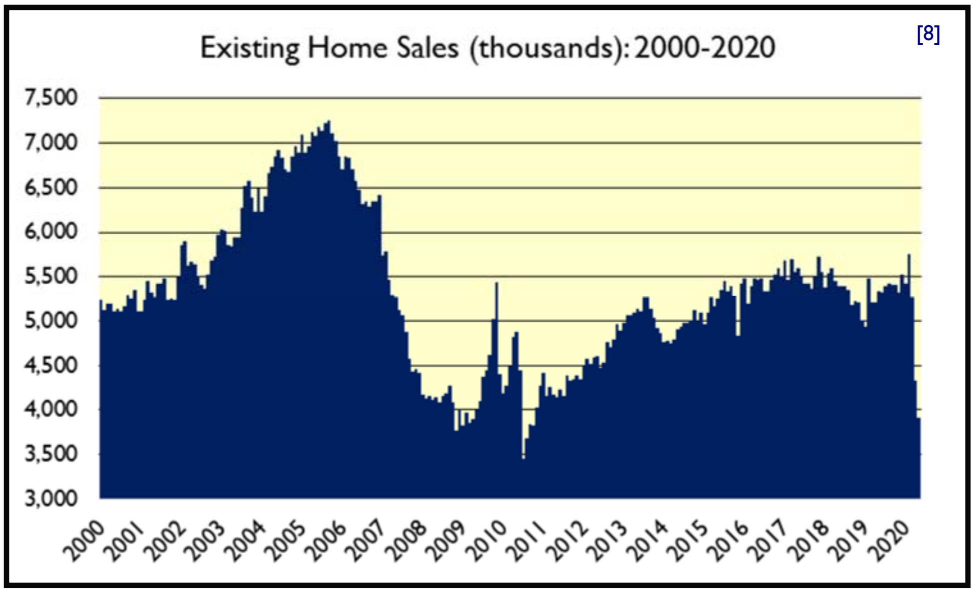
New Home Construction Starts:

The government shut-down prevented construction of homes resulting in a drop in new home construction starts. The rate had reached an annual average of 1.6 million new starts in January, before dropping to under 1 million in April and May (June data not yet available).



Sales of Existing Homes:

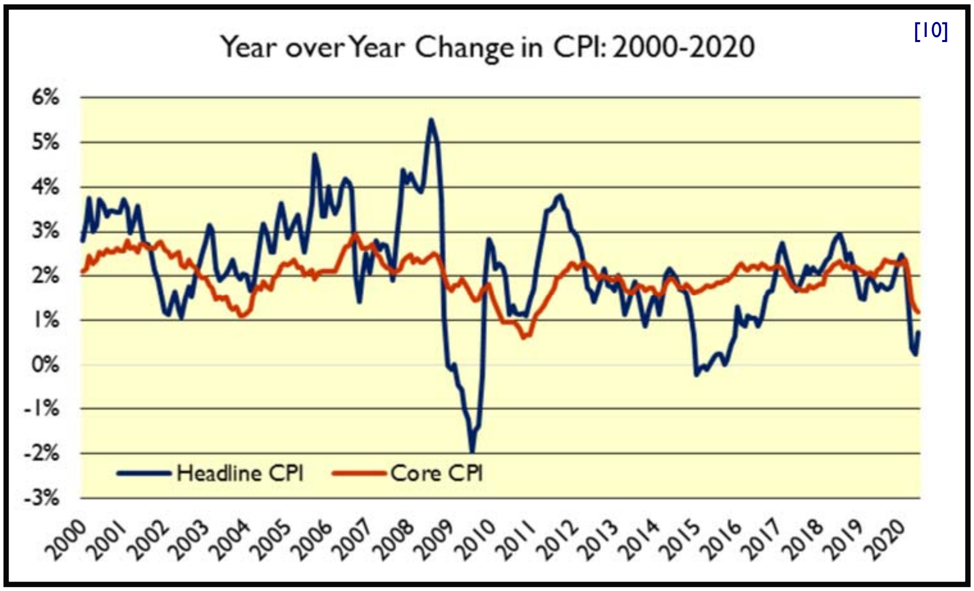
The sales of existing homes fell from an annual rate of 5.7 million homes in February to a rate only 3.9 million in May (June data not yet available).



Mortgage Rates:

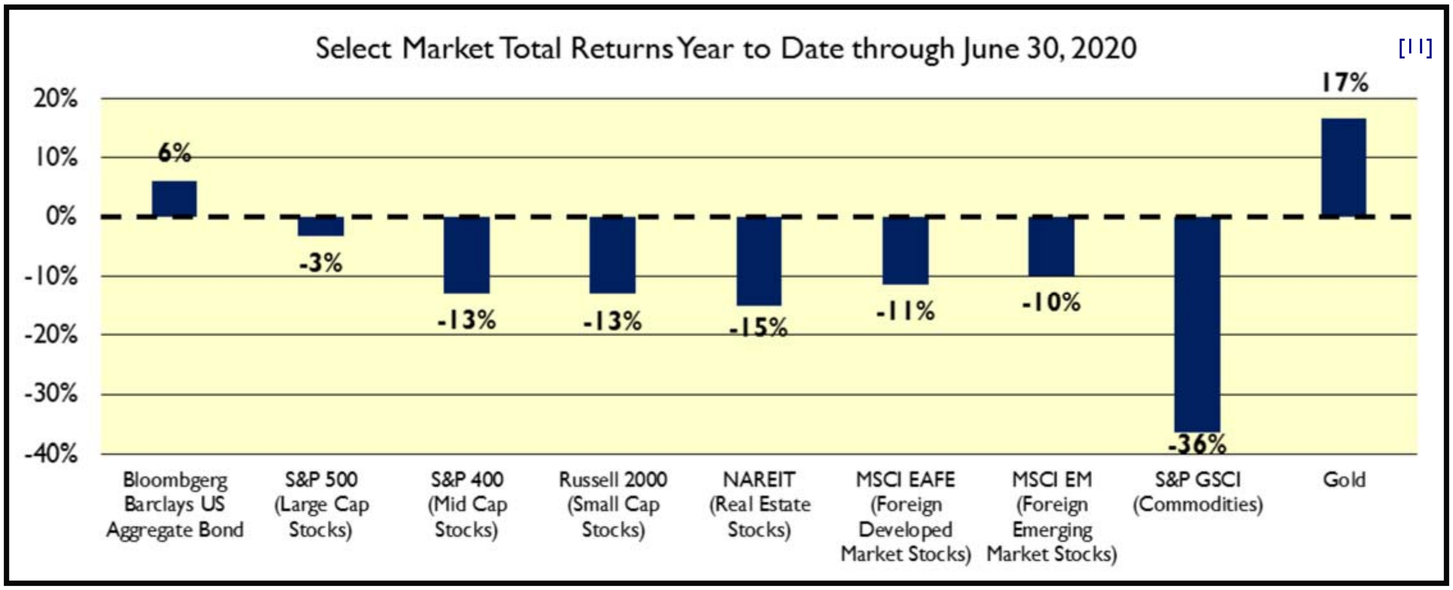
The interest rate on a 30 year mortgage fell below 3% for the first time in mid July, giving support to the housing market. Lower rates also allow existing home owners to refinance and free up monthly cash flow which is good for households.

Inflation:

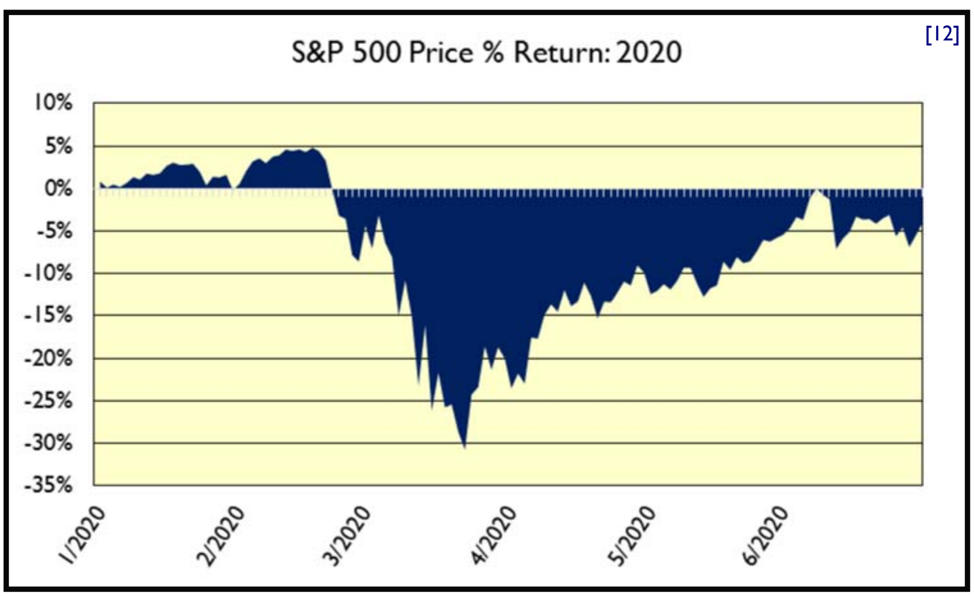


The virus has kept people from spending, thereby reducing inflation significantly. Currently, inflation is tracking below the desired 2% established by the Federal Reserve Bank.

The Markets:

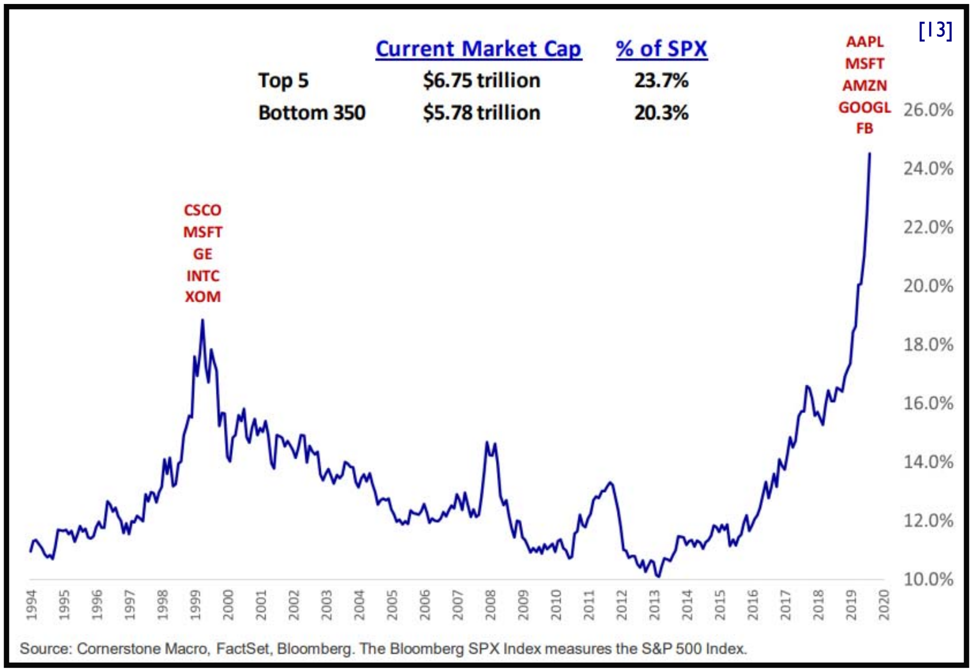


Market returns for major indices during the first half of the year are shown above.



The S&P 500 (U.S. Large Cap Stock Market) started the year strong, before the impact of COVID was felt, yet rebounded to near breakeven by June 30.

One interesting note is the makeup of the S&P 500 return during the pandemic. The five largest companies in the U.S. are Apple, Microsoft, Amazon, Google and Facebook. These five companies make up almost 24% of the total market cap of the S&P 500 while the smallest 350 companies make up only 20%. It is an indicator of how much value is placed on technology companies over the industrial brick and mortar companies of the past.



Stocks are valued at earnings times a P/E (price to earnings) multiple. At this time no one can accurately predict what the virus is going to do to future earnings over the remainder of the year. Current market valuations are looking post-COVID and forecasting a return to more normalized corporate earnings. How the 2nd half of the year unfolds will be crucial to the stock market's performance.

Our clients have been rewarded for staying the course during the 2nd quarter. Our team spends a lot of time understanding their risk tolerance, how it relates to their asset allocation and how we can properly select specific securities for the long run to meet both their current needs as well as their longer term goals. We may not know what the market will do in the short run, but we are prepared to navigate the uncertainties laid before us and can adjust as the need arises.

If you would like to talk further, please feel free to reach out to one of us. We appreciate the trust our clients place in us and strive to help them in all of their financial matters. If you know of someone who could benefit from our services, please let us know. We look forward to the remainder of the year!

By: Jerry VanderLugt CPA, CFP®, CVA

References:

[1] Information obtained from Morningstar Direct: "FRED, Real Gross Domestic Product, Seasonally Adjusted Annual Rate , U.S. Bureau of Labor Statistics, Billions of Chained 2009 Dollars"

[2] Information obtained from Morningstar Direct: "FRED, Civilian Unemployment Rate, Seasonally Adjusted , U.S. Bureau of Labor Statistics, Percent" & "FRED, All Employees: Total Nonfarm Payrolls, Seasonally Adjusted , U.S. Bureau of Labor Statistics, Thousands of Persons" & from Federal Reserves Bank of St. Louis: "Initial Claims, Number, Weekly, Seasonally Adjusted"

[3] Information obtained from the Institute of Supply Management, accessed at https://www.quandl.com

[4] Information obtained from the Institute of Supply Management, accessed at https://www.quandl.com

[5] Information obtained from the U.S. Census Bureau: "Monthly Retail Trade and Food Services, Seasonally Adjusted Sales - Monthly [Millions of Dollars]"

[6] Information obtained from Morningstar Direct: "FRED, Total Vehicle Sales, Seasonally Adjusted Annual Rate , U.S. Bureau of Economic Analysis, Millions of Units"

[7] Information obtained from Morningstar Direct: "FRED, Housing Starts: Total: New Privately Owned Housing Units Started, Seasonally Adjusted Annual Rate , U.S. Bureau of the Census, Thousands of Units" & "FRED, Privately Owned Housing Starts: 1-Unit Structures, Seasonally Adjusted Annual Rate , U.S. Bureau of the Census, Thousands of Units"

[8] Information obtained from Morningstar Direct: "FRED, Existing Home Sales, Seasonally Adjusted Annual Rate , National Association of Realtors, Number of Units"

[9] Information obtained from Federal Reserves Bank of St. Louis: "30-Year Fixed Rate Mortgage Average in the United States©, Percent, Weekly, Not Seasonally Adjusted"

[10] Information obtained from Morningstar Direct: "FRED, Consumer Price Index for All Urban Consumers: All Items Less Food and Energy, Seasonally Adjusted , U.S. Bureau of Labor Statistics, Index 1982-1984=100" & "FRED, Consumer Price Index for All Urban Consumers: All Items, Seasonally Adjusted , U.S. Bureau of Labor Statistics, Index 1982-1984=100"

[11] Information obtained from Morningstar Direct: Various Market Returns through June 30, 2020

[12] Information obtained from Morningstar Direct: S&P 500 Price through June 30, 2020

[13] Information obtained from Sprott webcast presentation "Gold Mining Equities: The Perfect Setup" July 14, 2020 & referenced sources.