QUARTERLY Market TALK

2ND QUARTER - 2020

Record-setting unemployment rates, plunging oil prices, and high levels of volatility created concern for investors in early Q2. Those concerns were offset by rising optimism in June. What does Q3 hold in store for the U.S. markets?

UNPRECEDENTED, UNCHARTED AND UNBELIEVABLE

No matter how you choose to describe it, the second quarter of 2020 was historic. The quarter opened with spiking coronavirus cases, shuttered companies with scattered employees, and an economy that would remain mostly closed for business for six weeks.

Every news headline was grim, full of stories about horrific unemployment numbers, increasingly restrictive stay-at-home orders and rising death tolls. The markets, however, seemed to shrug the doom-and-gloom off as they steadfastly marched back up from their Q1 lows.

The markets' rebound started slowly, held back by astonishing unemployment numbers and instability around oil. Following the almost country-wide shutdown, nearly 7 million people filed initial unemployment claims in late march[1] and by the end of April, the total unemployment rate came in at 14.7%.[2] It's a staggering number, especially when compared to February's rate of 3.5%.[3]

Oil, too, was hit hard by the shutdown. A price war between Russia and Saudi Arabia compounded the oil industry's problems and prices plummeted in response. With people staying home and travel halted, oil struggled to overcome too much supply and too little demand.

But as April turned to May, the lights began to flicker back on in states across the country. One by one, states reopened – some flinging the doors wide open and others nudging a window open just a crack. It was forward progress, no matter how slow, and optimism bloomed as people began to return to work and life started to resemble something recognizable.

As optimism rose, so did the markets. And they didn't just rise – they rocketed. When the surge finally leveled off, we had recorded the biggest 50-day jump in stock market history.[4] The upward trajectory was bolstered by a surprise May unemployment number, which showed a gain of 2.5 million jobs instead of a loss of 8 million.[5] The overall unemployment rate dropped too, hitting 13.3% instead of rising to nearly 20% as all the pundits, experts and economists predicted.[6]

As we started slowly re-emerging and re-engaging, things looked brighter. Then the gruesome death of George Floyd by a Minneapolis officer was caught on video, sparking protests, rioting and looting across the country. Markets, however, seemed unaffected by the commotion, climbing higher by early June. The Nasdaq erased all of its losses for 2020 and surpassed the 10,000-point level for the first time, driven primarily by big-name technology stocks.[7] The S&P 500 and Dow had a startling rebound in their own right. In early June, the S&P 500 turned positive for the year for a brief spell.

ENSIGN WEALTH MANAGEMENT

Equity Performance as of July 1, 2020					
Equity Index	3 MOS	YTD	1YR	3 YRS	5YRS
S&P 500:	19.95%	-4.04%	5.39%	8.56%	8.49%
Nasdaq:	30.63%	12.11%	25.64%	17.88%	15.07%
DJIA:	17.77%	-9.55%	-2.96%	6.53%	7.94%

Source: Morningstar. Index Performance: Return (%). http://news.morningstar.com/index/indexReturn.html. Accessed July 1, 2020.

In short, the market rebounded in a perfect V. But as we enter the third quarter and the second half of 2020, one question still looms: Will the overall economy follow the market's lead?

WHAT LIES AHEAD

The market's optimism in late May waned by late June, deflated by ongoing protests and renewed fears that a second wave of the coronavirus was holding things back. Concerns remain, too, about the possibility of a second shutdown or delayed reopening in multiple states where infection rates are spiking again. It's still too early to assess the total damage of the first shutdown, and a second shutdown would only make a bad situation worse.

However, we should soon be able to get a clearer picture of where the economy stands. Second quarter GDP won't be released for several weeks, but it seems reasonable to expect a second negative quarter in a row. While some people have returned to work, at the end of June millions of Americans were still unemployed.

There is good news. All 50 states have reopened in some fashion, and as companies resume operations, weekly unemployment rates continue to decline. Consumer confidence has been ticking upward steadily since the shutdown. As the country continues to reopen, consumer confidence will only increase. Oil prices – which were decimated at the end of March – have rebounded and mark one of the few bright spots on the horizon.

The wild card will be how quickly states can get back up and running at mostly full capacity, especially as infection rates rise and protests and rioting continue. As we return to normalcy, it will be difficult to gauge how U.S. consumers will react. Will some of these scars take a while to heal? Most likely.

CHARTING A NEW COURSE

Investors should remain cautiously optimistic as we navigate new territory over the next quarter. Volatility will continue to create drama in the already-sensitive markets, impacted by both positive and negative headlines. Although volatility has improved significantly from the first weeks of Q1, it remains in the mid-20s and 30s, high compared to its historic average in the mid-teens.

The primary cause for caution here is that with volatility at historically elevated levels, market movements can be dramatic. That's a cause of great stress to investors, so make sure the strategy you employ to pursue your goals addresses volatility.

As we ended the second quarter, we have climbed out of the darkest depths – but we're still a long way from where we were before the coronavirus arrived. To make sure you stay on your journey, you might ask yourself: How did you feel about your investments during the first half of this year?

It's natural to have doubts and concerns, but if you were driven to despair because of your portfolio, the market has given you a golden opportunity to step back and reevaluate. If you were comfortable with the market ups and downs of the past few months and feel you're still on the right – though somewhat rocky – path, then stick with it.

In times of market turmoil, the best thing you can do is rely on your financial advisor to keep you on track and provide you with the information, perspective and encouragement you need on your financial journey.

Unprecedented, uncharted or unbelievable: No matter how you characterize the first half of 2020, it will go down as a remarkable period in our history. We will emerge stronger from this period, both as an economy and as a country.

[1] Anneken Tappe. CNN Business. April 2, 2020. "A 3,000% jump in jobless claims has devasted the US job market." https://www.cnn.com/2020/04/02/economy/unemployment-benefits-coronavirus/index.html. Accessed June 24, 2020.
[2] Irina Ivanova. CBS News. May 8, 2020. "U.S. job market suffers its worst month in history." https://www.cbsnews.com/news/unemployment-rate-april-worst-month-coronavirus-pandemic-jobs-report/. Accessed June 24, 2020.
[3] Bureau of Labor Statistics. March 27, 2020. "State Employment and Unemployment – February 2020." https://www.bls.gov/news.release/archives/laus_03272020.pdf. Accessed June 24, 2020.
[4] Matthew Fox. Markets Insider. June 4, 2020. "Stocks just had their biggest 50-day rally ever – here's what they did next after similar gains." https://markets.businessinsider.com/news/stocks/stocks-biggest-50-day-rally-what-they-did-next-past-2020-6-1029282236. Accessed June 24, 2020.
[5] Jeff Cox. CNBC. June 5, 2020. "May sees biggest jobs increase ever of 2.5 million as economy starts to recover from coronavirus." https://www.cnbc.com/2020/06/05/jobs-report-may-2020.html. Accessed June 24, 2020.
[6] Ibid.
[7] Paul R. La Monica. CNN Business. June 9, 2020. "Nasdaq tops 10,000 for the first time ever." https://www.cnn.com/2020/06/09/investing/nasdaq-record-10000/index.html. Accessed June 24, 2020.