Gerry's Journal

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When Less-Lousy Data Is Good

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Since early February, we've tracked the COVID-19 pandemic and its impact on the U.S. economy. For the first time during this crisis, we see incremental improvements in key underlying economic data. The U.S. stock market has steamed higher during the last several weeks, with the S&P 500 now down roughly 5% from its pre-pandemic highs. In our view, three key pieces of information were released last week that require a closer look.

> **Chain store sales:** Johnson Redbook reported that chain store sales contracted at a slower pace in May than they did in April, which was a surprise. These chain store sales are a key metric when analyzing the pace of U.S. consumer spending and how quickly Americans are returning to "business as usual."
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> **U.S. unemployment:** Friday's jobs report was expected to show a rise in headline unemployment numbers, albeit at a slower rate than we saw at the peak of the COVID-19 crisis. Instead, the report showed that 2.5 million jobs were added in May—primarily in leisure and hospitality, construction, education and health service, and retail trade sectors—and the unemployment rate fell from 14.7% in April to 13.3% in May.[1] By contrast, employment in government continued to decline sharply.
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> **Chinese oil consumption:** China's oil consumption has returned to 90% of pre-COVID levels. Rising oil consumption is typically indicative of either industrial growth or increased output from existing industries, both of which suggest a recovering Chinese economy. We footnote this data point with a cautionary anecdote: during the Great Recession, when oil prices fell from $147 per barrel in July 2008 to $33 a barrel in February 2009, the United States only saw a 1% decrease in oil consumption. Regardless, China's uptick in oil consumption suggests increased global economic activity.[2]

What This Data Means

In a vacuum, a 13.3% unemployment rate, ongoing contractions in chain store sales, and a 10% decline in Chinese oil consumption would be cause for alarm. But the investment markets are forward-looking, and markets "price in" expectations for the coming months and years. As a result, the numbers themselves are not the headline story—the market is more concerned with how reported numbers compare to its expectations.

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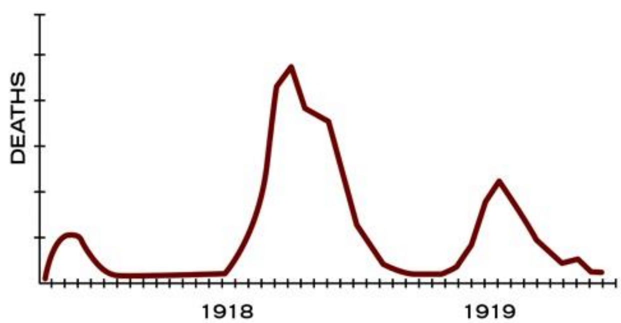
[1] New York Times, *About Those Job Numbers… (link)*

[2] Reuters, *China Drives Global Oil Demand Recovery Out of Coronavirus Collapse (link)*

Stated another way: the news we got last week certainly wasn't *good* news, but it was *less-lousy than expected.* And while three data points do not constitute a macro-economic trend, they are encouraging. For now, we feel cautiously optimistic about the trajectory of the U.S. economy and our portfolio asset allocations reflect that feeling.

Our Longer-Term Outlook

In our last Gerry's Journal entry, we discussed three possible paths for economic recovery: the "V-Shaped Bottom," the "Nike Swoosh," and the "L-Shaped Abyss." Based on the pace of recovery and last week's economic data, it is increasingly likely that our path of recovery is somewhere between the V-Shaped Bottom and the Nike Swoosh. The great unknown in all of this, is the so-called "second wave" of COVID-19 that could impact the global economy in the Fall of 2020. As the chart below from the CDC details, the second wave of the 1918 influenza pandemic (Spanish flu) took nearly a year to materialize and was significantly more devastating than the first wave.[3]



There are legitimate concerns about a resurgence of coronavirus, especially as cities and states begin to reopen and mass protests sweep across the country. If we see a significant spike in COVID-19 infection rates, all bets for economic recovery will be off. With that said, however, the search for a COVID-19 vaccine is a universal unifier and is something that everyone, irrespective of race, nationality, religion or creed, is pushing for at this very moment—and that's a rare find in today's world.

Significant progress is being made on a COVID-19 vaccine; in fact, there are over 100 vaccines in preclinical development, and 10 vaccines have already reached the clinical trial phase.[4] In a recent Q&A session with the Journal of the American Medical Association, Dr. Anthony Fauci announced that the U.S. should have 100 million doses of the Moderna/NIAID vaccine candidate by the end of the year, and the NIAID hopes to have "a couple hundred million doses" by the beginning of 2021[5]

[3] CDC, *1918 Pandemic Influenza: Three Waves (link)*
[4] The Lancet, *COVID-19 vaccine development pipeline gears up.* (Link)
[5] CNN, *The US should have a "couple hundred million" doses of a Covid-19 vaccine by start of 2021, Fauci says*. (Link)

COVID-19 Vaccine Stages, as reported by The Lancet

Vaccine Name	Developer	Development Status
mRNA-1273	Moderna and NIAID	Phase 2
BNT162	BioNTech and Pfizer	Phase 1/2
INO-4800	Inovio Pharmaceuticals	Phase 1
AZD1222	University of Oxford & AstraZeneca	Phase 2b/3
Ad5-nCoV	CanSino Biologics	Phase 2
Unnamed	Wuhan Institute of Biological Products & Sinopharm	Phase 1/2
Unnamed	Beijing Institute of Biological Products & Sinopharm	Phase 1/2
PiCoVacc	Sinovac	Phase 1/2
Unnamed	Institute of Medical Biology & Chinese Academy of Medical Sciences	Phase 1
NVX-CoV2373	Novavax	Phase 1/2

Closing Thoughts

We obviously feel a lot better today about the global economy than we did in late March. By no means are we giving the "all clear" sign, and the news isn't quite what we'd call "good" just yet; however, the news is getting *less bad*, and we feel optimistic about the united effort that is taking place to end the COVID-19 pandemic.

As we've said throughout this crisis, it's critical to maintain a disciplined approach to long-term asset allocations. And while this crisis is unprecedented in many ways, we still firmly believe that investment portfolios should be aligned with long-term financial objectives. Dramatic headlines will continue to flow in the coming weeks and months, and it's more important than ever to tune out this proverbial noise and stick to a prudent, long-term strategy.

As always, we are here to support you and your financial well-being during this challenging time. If you have any questions or concerns about your investments, your allocation, or any of the information we discussed in today's journal entry, please don't hesitate to contact us.