Canaccord Genuity Wealth Management

Market Watch Weekly

theBasran Wealth Management Group

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TOO FAR, TOO FAST?

The most rapid bear market in history has been followed by the most dramatic recovery in history. Over the past week the S&P 500 has encountered the best 50-day ever. Stocks that benefit the most from the economy reopening have led the charge higher for the broader market. The Dow surged 6.8% last week while the S&P 500 jumped 4.9% and the Nasdaq Composite climbed 3.4% closing at record levels for the first time since February 19th. The tech-heavy Nasdaq was the first of the three major indexes to trade back at all-time highs since the coronavirus pandemic shuttered the global economy. Without question, the trigger for the advance was the surprisingly strong US and Canadian job reports.

On Friday, it was announced that the U.S. economy added 2.5 million jobs in May. It was predicted to see job losses of about 8 million. The unemployment rate unexpectedly fell to 13.3%, down from 14.7% in April and far better than the 20% predicted by economists. The rebound in employment last month reverses only a small fraction of the jobs lost since February. As good as the numbers were, the jobless data contained puzzling traits. For one, they probably overstated the improvement by not classifying employed workers who weren't on the job as unemployed. The major indexes moved up more than 2% on Friday based off the job gains in May, so much for the disconnect between the market and the economy. The May unemployment report could lead to a false sense of confidence about a recovery, especially when the data being reported isn't exactly accurate.

What makes this forecasting error so historic from the community of economists and Wall Street analysts is more than the magnitude of the miss on the two widely reported and followed headline numbers: net jobs created, where the consensus expectation was off by 10 million, and the unemployment rate, off by some 6 percentage points. If the jobless data classified employed workers who weren't on the job as unemployed, the unemployment rate would have been 16.3%, acknowledged by The Bureau of Labor Statistics. It is important to note that we should not lose sight of the overall levels given that Covid-19 has inflicted the biggest shock on the economy since the Great Depression. Whichever of the two unemployment rates you pick (13% or 16%), it is still well above the 10% peak reached during the Great Recession. The 2.5 million jobs reportedly created in May account for only a small recovery of the 20.5 million lost in April. Pain and suffering are still manifested every day in long lines at many food banks around North America.

It is too soon for investors to let their guards down. The headline numbers look great but it's going to be a long road to recovery. The U.S. is still 20 million jobs in the hole and facing an unemployment rate that is four times higher than a few months ago. However, the one field that we are certain on for boosting the May job gains report and to increase employment worldwide is that of the temperature taker. It doesn't require a nursing degree, just a little training and some people skills.

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MARKET SUMMARIES

(at Friday's close)

S&P/TSX Composite up 2.10% at 15,854.07 (down 7.09% ytd)

S&P/TSX Venture down 0.98% at 556.91 (down 3.57% ytd)

S&P 500 up 2.62% to 3,193.93 (down 1.14% ytd)

Dow Jones Industrial Avg. up 3.15% at 27,110.98 (down 5.00% ytd)

Nasdaq Composite up 2.06% at 9,814.08 (up 9.38% ytd)

Metals

Gold: $1683.00

Silver: $17.48

Copper $2.56

Energy

Brent Crude Oil: $42.30

WTI Crude Oil: $39.55

Natural Gas: $1.78

Elsewhere, in Canada the economy added 289.6K jobs in May (vs. -500K expected), after having shed almost 2 million in the previous month. The surge means May was the best one-month gain for jobs in Canada in 45 years. This also means the economy has now replaced about 10% of the jobs it lost to COVID-19. Despite the job gains, Canada's unemployment rate rose to 13.7%, in February the jobless rate was 5.6% which then increased to 7.8% in March and 13% in April. The number of unemployed Canadians has more than doubled since February. The 13.7% jobless rate is the highest point since the Second World War in Canada.

On Friday, Prime Minister Justin Trudeau made the announcement that they will provide $14 billion to the provinces and territories to help them "safely and carefully" reopen their economies. The money will help pay for more personal protective equipment (PPE) for front-line health care workers and businesses, and for childcare so that parents can go back to work. Some of the money going to provinces and territories is meant to help them improve the state of long-term care and to help municipalities continue providing core public services such as transit. Ontario Premier Doug Ford said it's a "start", "The reality is, we have a $23 billion problem in Ontario and $14 billion for all of Canada just won't cut it."

IN THE WEEK AHEAD

One area to focus on is the pain across the small-business sector, which accounts for about half of overall employment in the U.S. So far, 10% of small firms have already missed a loan payment. If just 1 in 10 small businesses falls, it would destroy over six million jobs, or 5% of all U.S. employment. While the PPP has increased the chances that more small businesses survive the virus-driven recession, the funds have so far helped only about 15% of small companies. The Payroll Protection Program (PPP), part of the Cares Act, is meant to encourage small businesses to rehire furloughed workers. For the loans to be forgiven, companies have needed to use 75% of the funds to rehire workers by June 30. Companies that hired back workers in anticipation of the original deadline could shed some of those employees once their PPP loan is forgiven.

In March, the following quote made a lot of sense. Today it makes even more sense on the polar opposite of the spectrum. In March I was saying the markets were pricing in Armageddon, end of the world, and if the outcome was anything better than that worst-case scenario the markets would rally in a significant way. We are now on that polar opposite side of the spectrum where markets are back to factoring in the perfect outcome, however, a lot still remains unknown. Perspective, patience and a cash reserve to take advantage of volatility will always serve you well over time.

Our quote of the week is from the British economist, John Maynard Keynes.

"Markets can remain irrational longer than you can remain solvent."

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