MARKET COMMENTARY

The Stock Market is Not the Economy

April 2020

- The economic fallout from the coronavirus crisis ramped up in April. Since the start of the crisis, the U.S. has lost over 27 million jobs, and the unemployment rate is estimated to be 17%.[3]
- If one Wall Street adage explained April, it's this: "the stock market is not the economy." Although April was one of the worst months for the economy on record, it was also the best month for the stock market in 33 years.
- The sustainability of this disconnect is unclear. Are investors looking beyond the current economic wreckage and anticipating a swift and full recovery, or conversely, are they simply caught up in a liquidity-fueled buying spree that will eventually stall out or fail as the long-term consequences of the pandemic become clear?

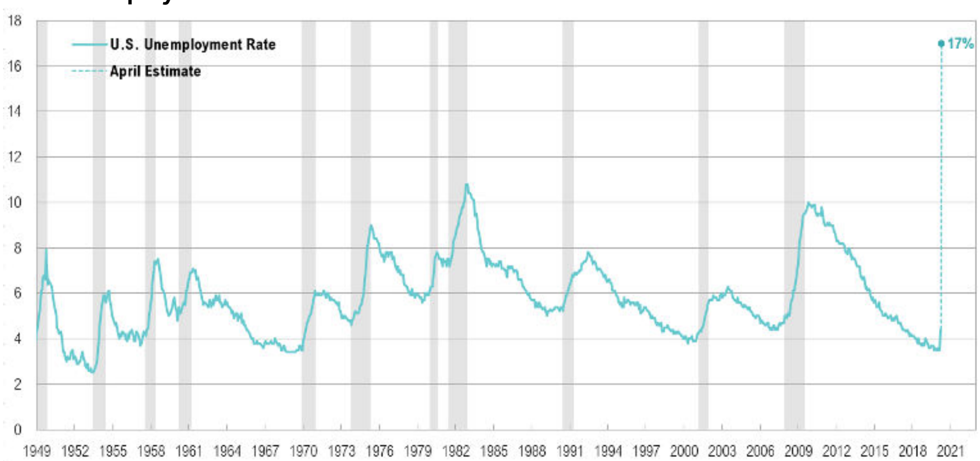
The Coronavirus & the Economy

The devastation wrought by the novel coronavirus has been profound, both in terms of loss of life and the economic costs of containing it. The economic situation was summed up well by U.S. Federal Reserve Vice Chairman Richard Clarida in early May: "We're in a period of some very, very, very hard and difficult data that we've just not seen for the economy in our lifetimes, that's for sure."[1]

The first quarter Gross Domestic Product (GDP) report released on April 29 showed economic activity contracting 4.8% (at an annual rate), the worst slump since the Financial Crisis. U.S. initial unemployment claims eclipsed 27.8 million (not seasonally-adjusted) over the six weeks ending April 25, more than six times greater than the prior record.[2] Researchers at Oxford Economics expect Friday's payroll report for April to show the unemployment rate increasing to 17%.[3] If there is any good economic news, it is that the pace of job losses has slowed since the peak of 6.9 million, which was reached on March 28, but that is no doubt scant consolation for the millions who are jobless.

News about the virus itself has been equally dismal, but we continue to cling to the hope that the worst may be behind us. The number of new cases has shown little improvement,

U.S. Unemployment Rate



Source: U.S. Bureau of Labor Statistics

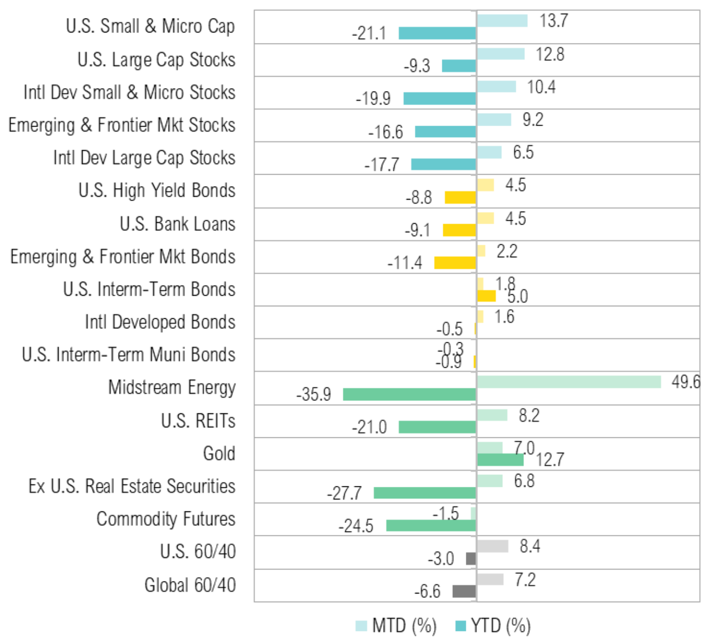
April 7, 2020 Market Commen-

averaging slightly less than 30,000 for the last month[4], though as the number of tests administered has increased, the ratio of positive cases relative to the total tested has been declining and is currently at 16.5%, down from a high of almost 20% on April 14.[5]

The Stock Market is Not the Economy

If one Wall Street adage explained April, it's this: "**The stock market is not the economy.**" (A close second would be, "Don't fight the Fed.") While April was one of the worst months for the economy on record, it was also the best month for the stock market in 33 years, with the S&P 500 Index rising 12.8%. Most risky assets experienced dramatic gains, with especially strong showings from the Consumer Discretionary and Technology sectors, which were up 19.0% and 13.8%, respectively.

April 2020 Key Market Total Returns



Source: Bloomberg

Aside from the clearing of oversold conditions that is common coming out of panics, a significant portion of the market recovery was precipitated by the litany of fiscal and monetary support programs aimed at creating an economic stopgap. In addition to fiscal measures totaling 13% of GDP in March[6], in April the U.S. approved a fourth stimulus package, totaling $484 billion and including a $384 billion expansion of the Small Business Administration's lending programs, as well as $100 billion to support testing for COVID-19 and healthcare providers.[7]

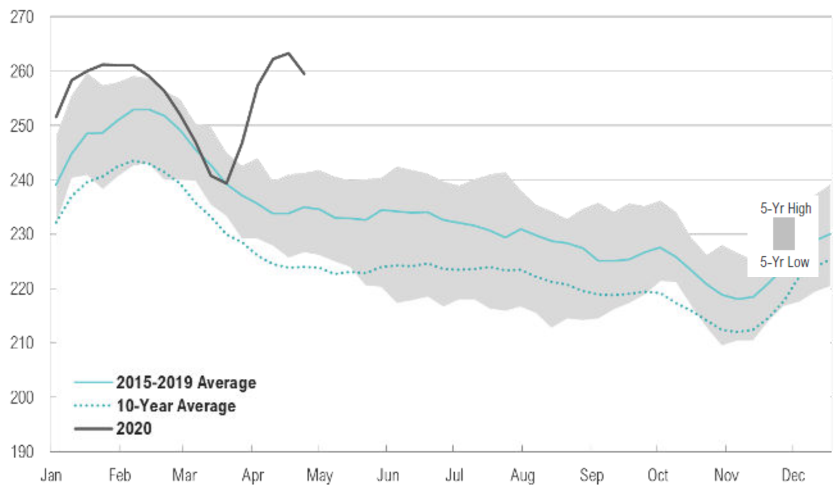
The U.S. Federal Reserve also continued its bond-buying program, rapidly expanding its balance sheet from $5.3 trillion at the end of March to $6.7 trillion on April 29. This astonishing $1.4 trillion jump in asset purchases represents another 6.5% of 2019 GDP.[8]

All told, the various stimulus programs will add up to 26% of expected 2020 GDP, which is a staggering number.[9] These measures will of course not be costless over the long term, but they do put cash in consumers' pockets and inject liquidity into the financial markets immediately.

Crude Carnage

Supply and demand imbalances continued to wreak havoc on the energy sector in April. The hardest hit area was the WTI crude oil futures market. While a significant portion of this market is represented by speculators who are betting on the price of oil—rather than hedging it—these markets are nevertheless linked to the physical oil markets. That link is most relevant when each month's futures contract expires and its holder is obligated to take delivery of 1,000 barrels of oil in Cushing, Oklahoma. Normally, these speculators—often called "paper traders"—will roll expiring contracts to a future month, thereby avoiding the need to take delivery. But these are not normal times. For example, retail gasoline demand was down an estimated 29 million barrels/day in April versus the same month last year, a 29% decline and a level not seen since 1995[10]. In addition, suppliers have yet to adjust to a reality in which fewer miles are driven and fewer flights are taken. As a result, gasoline and crude oil inventories have swelled to record levels, and storage prices are at a premium. These factors drove prices on the May WTI crude oil futures contract to below negative $37 per barrel, an all-time low.

U.S. Gasoline Inventories



Source: U.S. Energy Information Administration

Looking Forward

A short-term divergence between the markets and the economy is understandable, if not to be expected. However, the size of the current disconnect is worrisome, and its sustainability remains unclear. Are investors looking beyond the current economic wreckage and pricing in a swift and full recovery—presumably after the virus has run its course or a vaccine developed—or are they ignoring the long-term damage of the pandemic and engaging in a liquidity-fueled bear market rally that will eventually stall out or even fail? We suspect the answer lies in how we will all, collectively, behave once the lockdowns ease, as they are starting to across the U.S. Will we all travel, shop, and invest—deploying our now coveted capital—the way we did at the end of last year, or have things changed? We will soon find out.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

Performance Disclosures

All market pricing and performance data from Bloomberg, unless otherwise cited.

Citations

1. CNBC: https://www.cnbc.com/2020/05/05/cnbc-exclusive-cnbc-transcript-federal-reserve-vice-chairman-richard-clarida-speaks-with-cnbcs-sara-eisen-today.html
2. U.S. Department of Labor
3. Oxford Economics: https://bit.ly/3dpAy1c
4. Bing, aggregated from CDC, WHO, ECDC, Wikipedia, 24/7 Wall Street and BNO News
5. Bloomberg data, SpringTide calculations
6. Congressional Budget Office, Hoisington
7. Library of Congress, Congressional Budget Office
8. Board of Governors of the Federal Reserve System
9. Charles Schwab: https://bit.ly/2WuKEXH
10. U.S. Energy Information Administration

Disclaimer and Terms of Use

Magnus Financial Group LLC ("Magnus") did not produce and bears no responsibility for any part of this report whatsoever, including but not limited to any macroeconomic views as well as any errors or omissions. Research and data used in the presentation have come from third-party sources that Magnus has not independently verified. This presentation and the opinions expressed are not by Magnus or its employees and are current only as of the time made and are subject to change without notice.

This report may include estimates, projections or other forward-looking statements, however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager or group of managers. Any index benchmarks contained in this report would be provided so that performance can be compared with the performance of well-known and widely recognized indices. Any index results would assume the re-investment of all dividends and interest.

The information provided is not intended to be, and should not be construed as, investment, legal or tax advice nor should such information contained herein be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. An investor should consult with their financial advisor to determine the appropriate investment strategies and investment vehicles. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance. This presentation makes no implied or express recommendations concerning the way any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's specific investment objectives.

Investment advisory services offered through Magnus; securities offered through third party custodial relationships. More information about Magnus can be found on its Form ADV at www.adviserinfo.sec.gov.

TERMS OF USE

This report is intended solely for the use of its recipient. There is a fee associated with the access to this report and the information and materials presented herein. Re-distribution or republication of this report and its contents are prohibited. Expert use is implied.

About Magnus

Magnus Financial Group LLC is an SEC-registered, independent investment advisory firm located in New York City. Magnus provides customized wealth management and financial planning services for clients in all phases of their lives. As an independent RIA, Magnus provides high-quality service with a personalized client approach. Magnus was founded in 2017 and consists of approximately 17 staff professionals including seven wealth advisors, investment operations, compliance and marketing, research and trading personnel, client service members and administrative support.

Learn more: Visit magnusfinancial.com

MAGNUS FINANCIAL GROUP

90 Park Avenue, Suite 1800,
New York, NY 10016

(800) 339-1367

service@magnusfinancial.com