

OBSERVATIONS

- Covid-19: States with a combined 80% of U.S. population have taken steps to pause or rollback reopening.¹
- The U.S. labor-market recovery is losing momentum as a surge in coronavirus cases triggers heightened employer uncertainty and consumer caution. Job openings in July are down from last month across the U.S., and Google searches for "file for unemployment" are creeping up. Growth in worker hours is waning at small businesses after several weeks of gains.²
- Small business optimism rises to 3-month highs, but caution remains - only 13% of employers think it is a good time to expand, 7% plan on boosting inventory, and 22% see increased capital expenditures.³
- Retail sales increased +7.5% MoM in June vs expectations of +5% - second consecutive month of growth.⁴
- China's economy grew +3.2% in Q2, better than median forecasts of +2.4%.⁴
- After a lull in deal making, M&A activity is starting to pick up - Analog Devices to acquire Maxim Integrated Products in a \$21bn deal. This follows multi-billion dollar deals by Berkshire Hathaway, Uber, and Allstate.⁴
- A record 414 companies are nearing financial trouble according Moody's. The list of companies rated in the lowest four tiers prior to default is nearly 42% higher than during the 2008-2009 crisis.⁵
- UBS Investor Watch Survey⁶:
 - **A new normal and a new clarity**- 75% of survey respondents think the old way of life has forever changed, 88% say staying healthy is top priority, 80% want to spend more time with family, and nearly 75% say that the pandemic has made them reassess what is most important and realize that life is too short.
- S&P 500 turned positive for the year (+.88% YTD as of 17-July) on the back of better than expected earnings as well as new vaccine related developments.⁴

EXPECTATIONS

- In comments early in the week, Federal Reserve Bank of Dallas President Kaplan reinforced the importance of support by the central bank but added "I am a believer that we will need to get back to more unaided market function without as much intervention from the Fed. We're just not at that point yet."⁴
- Big banks kicked off earnings season last week with mixed results. 92 S&P 500 companies are set to report earnings this week. Given the number of companies that have pulled guidance amidst the crisis, surprises are likely to be abundant and could lead to volatility through the earnings season.

ONE MORE THOUGHT⁷

Last week's inflation (CPI ex. Food and Energy) reading showed a modest increase month over month as economic activity has picked up; however, CPI remains unchanged at 1.2% on a year over year basis⁴. While the headline inflation bears national importance, the reality is that one's experience with inflation varies widely based on individual circumstance. The Bureau of Labor Statistics produces the Consumer Price Index (CPI) which is meant to represent the aggregate of goods and services consumed. The CPI is an aggregation of 200 categories into 8 major

¹ Goldman Sachs Investment Research, 17-July

² WSJ 17-July

³ NFIB Report, U.S. June Small Business Optimism Survey released 14-July

⁴ Bloomberg LP

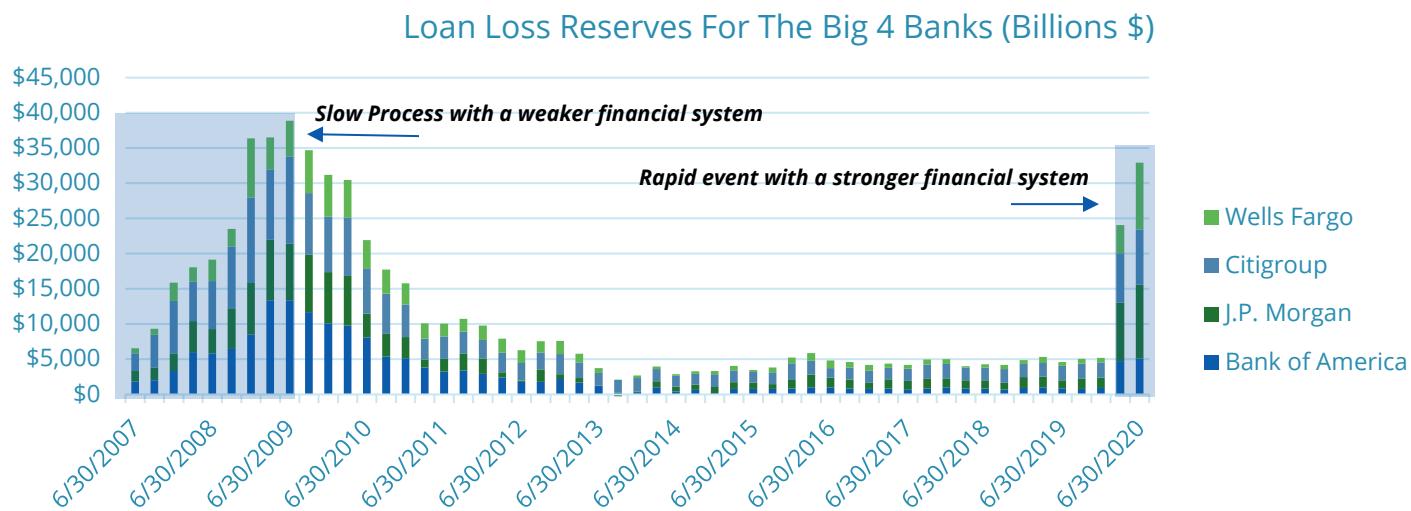
⁵ Barrons, Moody's 16-July.

⁶ UBS Investor Watch, Global Insights: What's on investors' minds / July 2020

⁷ Bureau of Labor Statistics, Bloomberg LP, Seasonally Adjusted data 2000-2020

groups - weight of the category in the CPI index is in parentheses: food and beverage (14%), housing (42%), apparel (3%), transportation (16%), medical care (9%), recreation (6%), education and communication (7%), and other goods and services (3%). While aggregate inflation has averaged near 2.1% since 2000, certain categories (particularly in the services sector) have seen disproportionate inflation pressure. Examples include college tuition, which has grown by 5.0% per year over 20 years and medical care, which has grown by 3.5% per year over 20 years. In a 2003 paper⁸, the Federal Reserve Bank of New York noted that inflation disparities at the household level were generally due to three categories: education, healthcare, and gasoline. Nearly 17 years later we can say the same about the sources of inflation disparities. It is plausible that the COVID-19 crisis, and subsequent response, may serve as a catalyst in slowing the rate of change for these categories and perhaps rightsizing so called inflation inequalities.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, data as of 16-July

The 4 largest banks released details of provisions for loan losses (i.e. allowances for bad debts) last week. As the COVID-19 crisis continues to impact the ability to repay loans, banks have been forced to make significant loan loss reserve provisions covering a wide range of loan types. Banks continue to be significantly better capitalized today as compared to the 2008-2009 financial crisis, which has helped buffer those institutions during this extreme event.




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⁸ "Inflation Inequality in the United States", FRBNY, Hobijn, Bart, Lagakos, David. Staff Report no. 173. October 2003