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BAD, WORSE & BETTER

Before the Coronavirus, the US economy was cruising for what looked like 3% annualized growth in real Gross Domestic Product (GDP) in the first quarter. But the effects of both natural social distancing and government-mandated lockdowns trampled economic growth in March and April.

It is likely that the April through June results (2nd quarter) are going to be worse. How much worse? In the current quarter, real GDP is likely to drop at about a 30% annual rate – rivaling declines last seen during the late-1945 wind-down from World War II.

You can also expect the unemployment rate to flirt with 20% thru June, compared to highs of 10.0% in the aftermath of the Great Recession in 2009 and 10.8% at the end of the brutal 1981-82 recession.

The key for investors like us is to remember that none of this is going to shock anyone; the markets already know it's going to be awful. Instead, we need to focus on how quickly we are going to recover and walk back from our fears.

BETTER: How to know when things are better.

Unemployment continuing claims reach a peak. The initial weekly claims peaked the week ending March 28 and since have declined. The continuing unemployment claims are still climbing, yet the weekly number is falling. A good sign of the bottom is when the continuing claims have peaked.

Second, the federal government's receipts for withheld income and payroll taxes, which are reported daily, bottoms out. Those are down around 10% from a year ago, yet they fluctuate from day to day. When the year-ago comparison hits bottom and then starts getting "less bad", that would suggest an economic bottom as well.

What investors like us need to keep in mind is that when we invest in stocks, we are not buying shares of GDP; we are buying shares of specific companies that offer an always changing flow of goods and services. I think the worst news has already been factored in. Investors who can grit their teeth through the economic pain should be rewarded in the years ahead.

To all of you who sent in money or reinvested your Required Minimum Distribution since the decline on February 19 – and to those who invested in the market before the March 23 bottom, KUDOS, you will likely continue to reap the rewards.

Call our office if you would like to talk or to get more information. We are here for you.

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