

Economic highlights from the week ending on May 8, 2020

U.S. nonfarm payrolls declined by 20,500,000 in April, following an 870,000 decline in March. The unemployment rate increased to 14.7% in April from 4.4% in March, and the labor participation rate declined to 60.2% from 62.7%. The U-6 underemployment rate, which includes those who are marginally attached to the labor force and employed part time for economic reasons, jumped to 22.8% from 8.7%. By comparison, in the wake of the last recession, the unemployment rate peaked at 10.0% in October 2009, and the underemployment rate peaked at 17.2% in December 2009. The pace and severity of job destruction in the last 7 weeks is unprecedented. Average hourly earnings rose 4.7% in April and were up 7.9% on year-over-year basis (vs. up 3.3% year-over-year in March), which reflects the destruction of lower paid jobs. Notably, the establishment survey of payrolls and the household survey of unemployment are collected mid-month, and do not capture the job losses in the second half of April, which points to another sobering employment report next month. According to the weekly initial jobless claims reports, a total of more than 33 million people have filed for unemployment since mid-March, which suggests that the current unemployment rate is actually over 20%. Many of those jobs are expected to return as the economy slowly begins to reopen but we believe unemployment is likely to remain elevated heading into next year.



As of yesterday's market close, the Dow Jones Industrial Average and S&P 500 indices are up 28.4% and 28.8%, respectively, from the recent (March 23, 2020) low. Supported by historic fiscal and monetary response, we believe equity market participants are generally looking through the weak economic data and expect conditions to improve in the second half of the year. Meanwhile, Treasury yields across the curve remain under pressure, with the 2-year Treasury yield dipping to as low as 0.105% this morning; an all-time record low. The 10-year Treasury yield is up about five basis points week-over-week to 0.66%. We believe the ongoing global demand for safe haven dollar-denominated assets continues to put downward pressure on Treasury rates. The Treasury yield curve also suggests that the Fed is likely to keep its main policy rate near the zero bound for an extended period.



Next Week

CPI, PPI, Retail Sales, Industrial Production, Consumer Sentiment

© 2020 Chandler Asset Management, Inc. An Independent Registered Investment Adviser. Data source: Bloomberg. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgement. Fixed income investments are subject to interest rate, credit, and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates. S&P 500— The S&P 500 is a market value weighted index of 500 large-capitalization stocks. The 500 companies included in the index capture approximately 80% of available US market capitalization. Dow Jones—The Dow Jones Industrial Average is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange and the NASDAQ.