CLEAR CREEK ADVISORS

TIME BOUGHT

Market Review **MAY 2020**

The pandemic of COVID-19 remains a relevant topic weighing on the concerns of public-safety and in financial economics. Improvements in the number of daily cases are being made in North America and Europe, but new cases are growing in many of the emerging market economies. The pandemic recovery phase is expected to be long. There are challenges ahead to boost economic confidence and consumer demand. But as the clock ticks down, the economy moves closer to a full recovery.

There has been a wide range of policy decisions made by various states to address the diversity of safety-protocols that each state faces. This has caused some states to reopen before others. A lot of pressure has built up to reopen the US economy as quickly as possible. But the obvious risk is a re-spike in the daily case rate, if the reopening happens too quickly. Still, Americans are anxious to return to work and are ready to consume goods and services again.

American workers are experiencing massive disruptions in what was their usual way of life. The current US statistic reports that about 21 million Americans remain on ongoing unemployment insurance. The count is down from the top of nearly 25 million claims. Episodes of high unemployment take considerable time to re-normalize for many reasons. The job differential that measures the number of applicants per available job is likely to reflect a surplus of applicants for an extended period of time such as it does today.

To insure the losses of the unemployed, massive public deficits are being financed from future GDP. Total assets held by the Federal Reserve have grown by nearly $3 trillion since the beginning of March. Coincidently, legislative action to support relief in the pandemic has increased government spending by an equivalent amount. Total assets are the other side of ledger for money creation, a liability, which sits on the central bank's balance sheet. New money was created to finance deficits in a way that can help support the economy in this difficult time of transition.

Public planning is taking chapters out of Keynesian economics and Modern Monetary Theory. In Keynesian, government deficits are used to spur on aggregate demand. Monetary theory says nominal GDP equals the money supply times the recycle rate of money in the economy. But since the recycle rate is so poor right now, a greater reliance is needed on the amount of money that is in circulation.

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To date, efforts to get money in the hands of people appear successful. Personal incomes have grown 13.5% in a matter of a year according to a national statistic. The problem, however, lies in consumer confidence. Consumers feel uncertain about their future household incomes and are opting to save instead of spending the stimulus money. The evidence lies in national data which shows that personal savings have spiked and personal expenditures have collapsed.

One place where new money creation may be evident is in the value of security prices. With respect to secondary markets for corporate debt, direct Federal Reserve purchases, in the new era of "quantitative easing", has clearly had an impact on corporate debt prices. The assistance of public policy in capital markets is making it possible for most corporations to survive the shutdown. Corporations were in desperate need for cash since their sales were cratered by COVID. Without intervention in capital markets, corporations would have probably had a harder time acquiring new capital. To date, corporations have raised approximately double the amount of new debt that is normally issued around this period of time in past years.

Such conditions are the current state of the US economy right now. But similar scenarios with respect to public deficits, money expansion, and collapsing consumer demand are being seen in other regions of the world. Time has been put on the clock for the global recovery to take place. Hopefully, there is plenty of pent up demand ready to unload once economies are able to fully reopen.

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Asset Categories	US STOCKS	FOREIGN STOCKS	US BONDS	FOREIGN BONDS	HARD ASSETS	HYBRIDS
Monthly	5.58%	4.61%	2.05%	3.90%	5.09%	4.40%
Year to Date	-13.31%	-15.24%	-0.37%	-3.85%	-14.40%	-2.58%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING MAY 31, 2020.

US STOCKS

US Stocks experienced a consecutive month of gains in May. The recovery in the category average since March has been quick and impressive. The recoupment of prior losses is mostly uniform in large- and small-cap equities. Still, small-cap stocks have larger recovery deficits from earlier events. Year-to-date losses in the large- and small-cap categories reside around -7.1% and -19.0%, respectively. But buyers did return to small-caps in May exhibited by a larger monthly return.

FOREIGN STOCKS

Foreign Stocks saw another month of gains and were led by small-caps. Small-caps outperformed large-caps by about 1.6%. Emerging-markets were laggards in the month as COVID obviously begins to weigh on those economies. The monthly return in emerging-markets finished at 2.8%, which slims the year-to-date loss to -15.7%. On average, foreign stock returns remain behind domestic stock returns, but the two regional exposures have been tightly correlated.

US BONDS

US Bonds saw strength in May especially in bonds that carry more risk. The corporate high-yield and leveraged-loan categories earned respective monthly returns of 4.0% and 3.4%. Their year-to-date losses were narrowed to approximately -6.0% in both markets. The best performance in the current year still comes from government and investment-quality corporates. Respective year-to-date returns in those two categories stands near 5.1% and 2.0%.

FOREIGN BONDS

Foreign Bonds picked up returns in May on the strength of emerging-markets. Unlike equities, emerging-market bonds outperformed in May with a return of 6.0%. The cumulative year-to-date loss has been narrowed to -6.8% on that category. World bonds etched out a monthly return of 1.8% and have lessened their year-to-date loss to -0.9%. Comparisons between foreign and domestic bonds reveal that high-yield is doing about the same, but quality has been better in domestics.

HARD ASSETS

Hard Assets recouped nicely in May driven by the return in precious metals. The precious metal category produced a 10.0% return last month. Most of its year-to-date return was made in the month of May. Energy partnerships improved as well with a monthly return of 7.6%. That puts the year-to-date performance of energy partnerships at -29.1%. Real-estate assets saw less momentum in May. Year-to-date returns now reside around -19.0% for real-estate categories.

HYBRIDS

Hybrids correlated strongly with equities in May. The category produced a monthly return of 4.4% and slimmed the year-to-date loss down to -2.6%. The best performance in the month came from convertible bonds since they benefit when equities do well because of their convexity slopes. Preferred stocks are still the laggards of the year. Year-to-date losses sit near -7.9%. The coupon payment, however, is still attractive in terms of its ability to compound with time.