BLB&B Advisors, LLC
FINANCIAL GUIDANCE SINCE 1964

BLBB Advisors, LLC – Weekly Market Update Friday, April 24, 2020

Take a Virtual Tour (or two)!

For those looking to escape the confines of your home during this period of social distancing, how about some virtual travel? If you haven't made it to The Louvre yet or you've always wanted to see Machu Picchu, these websites offer a wide variety of tours all from the comfort of your own home. Happy travels and have a fun, safe, and healthy weekend!

https://www.techradar.com/best/virtual-tours-museums-national-parks-around-the-world

https://www.digitaltrends.com/virtual-reality/best-virtual-tours/

https://www.thrillist.com/travel/nation/virtual-trips-travel-tours

Economic Update:

As economic data for the first quarter starts to roll in, we are beginning to get some idea of the scope of the economic damage inflicted by the coronavirus pandemic and ensuing societal shutdowns. In the US, another 4.4 million people filed new unemployment claims this week. While this figure is below that of recent weeks, the 5-week total amounts to over 26 million Americans now out of work (https://www.wsj.com/articles/millions-of-u-s-workers-continue-to-seek-unemployment-help-amid-coronavirus-11587634201). Unfortunately, it also appears these figures will remain extremely elevated over the near term and could even rise again as the unemployment compensation websites are completely overwhelmed in some states and the processing of applications is taking much longer than normal. Once the states have worked their way through the mountains of applications, the unemployment figures could rise some more.

Other recent US economic data confirms the story already being told by the unemployment claims data – basically that the sudden and almost complete economic shutdown of the US and global economies immediately slowed economic activity and growth. The Conference Board's Index of Leading Economic Indicators, for example, fell by 6.7% in March – by far the largest decline in its 60-year history (https://www.conference-board.org/data/bcicountry.cfm?cid=1) . This index takes a wide variety of economic data into account including consumer expectations for business conditions, initial unemployment claims, manufacturers new orders for consumer goods and services, building permits, and average weekly hours in manufacturing. It is not surprising that many of the components of this index are suffering given that the economy essentially shut down immediately and with little to no advance warning.

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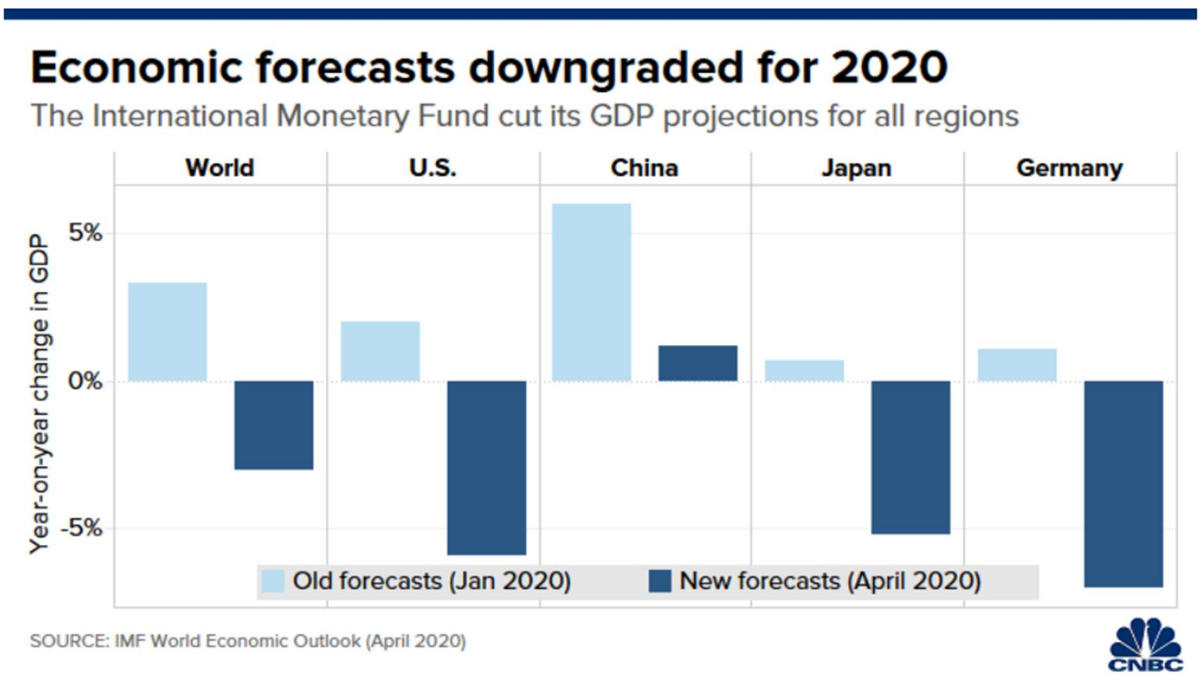
The retail sector, in particular, is beginning to emit a number of distress signals. Over the last few weeks, a number of well-known retailers and other businesses, including JC Penney, Neiman Marcus, Modells, Pier 1, and AMC Theatres, sought or indicated they will soon seek bankruptcy protection. Unfortunately, this is probably just the start of what could end up being a wave of corporate and personal bankruptcy filings. It is important to keep in mind, though, that filing for bankruptcy does not mean the company is closing and going out of business. Oftentimes, companies use bankruptcy as a tool to reset themselves financially and start over. You may recall that a number of large companies filed for bankruptcy during the 2007-2009 financial crisis – many of which still survive today including General Motors.

As you would expect, this economic pain is worldwide. The coronavirus has spread to over 185 countries and many are under some form of lockdown. The International Monetary Fund recently released its global GDP projections and as you can see in this chart, GDP growth is expected to be significantly negative over the near term



(https://www.cnbc.com/2020/04/24/coronavirus-pandemics-impact-on-the-global-economy-in-7-charts.html). Not surprisingly and given the implications of these bleak projections, many economists and market analysts also now believe the US is already in the midst of a recession (https://www.forbes.com/sites/simonmoore/2020/03/28/why-the-us-is-now-in-recession/#51acb44a5ef6). Of course, we will need to wait for the National Bureau of Economic Research (NBER) to officially confirm whether or not we are in a recession. This is something they likely will not do for at least several more months as the official definition of a recession is two consecutive quarters of negative economic growth.

Apart from the impact of Covid-19, the US economy and financial markets are also being affected by what has been happening with the price of oil over the last few months. In early January, WTI Crude oil was trading around $61/bbl. Now, it is trading around $17/bbl and even briefly traded in negative territory earlier this month. The sudden and dramatic evaporation in the global demand for oil combined with a glut of supply and an ongoing price dispute involving Russia and Saudi Arabia has wreaked havoc in oil markets so far this year.

Fortunately, Congress approved a 4th relief bill yesterday and President Trump is expected to sign this bill into law later today, thereby authorizing an additional $484 billion in funds to help support the US economy as it makes its way through the shutdown. Some of these funds are designated to support hospitals and to expand testing capacity and some are designated to replenish the already depleted small business assistance programs originally created by the CARES Act a few weeks ago.

On the Covid-19 front, there have been 5 recent serological studies around the country and these all suggest that far more people than expected (anywhere from 10X to 85X more people) already appear to have antibodies to the virus. In other words, many more people may already have had the virus and apparently were asymptomatic. If these small scale and rather hastily done studies prove to be accurate, then the statistics around Covid-19, including the percentage of fatalities and hospitalizations may be lower than originally reported. Only time will tell, however, how pervasive the disease really is and whether any significant amount of herd immunity is already developing.

As we look ahead in US financial markets, we are wondering how resistant investors will be to the inevitable onslaught of poor economic data, including corporate earnings, that we all know is coming over the next several months and possibly longer. In other words, will investors be willing to look beyond this data to the eventual recovery in the US and global economies? Fortunately, we have examples of other countries, like those in Asia, that, for the most part, are ahead of the US in the disease cycle and have already begun to reopen their economies. Hopefully, we will have the benefit of seeing what works and what does not work for them and then use this information to our advantage as we build out what reopening looks like here.

As we have said for the last few weeks, we expect financial markets to remain volatile as they react to news on the virus, oil, or economic front. Although things feel a little less scary than they were at the beginning of the pandemic, there are still many unknowns about the virus, when effective treatments will be available, when more testing will be available, and whether economies around the world will be able to open sooner or later. These uncertainties will continue to weigh on markets and inject volatility. Although unpleasant, this state of heightened volatility is normal and almost always happens when uncertainties are running high.