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Virus Threat Rattles Markets

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There were a considerable number of economic releases this week, but there's no indication the financial markets were paying much attention to any of them. The overriding market focus, as it should be, is on the path of the coronavirus. Yesterday, Texas Governor Greg Abbott froze the state's reopening plan in response to a recent surge of COVID-19 cases threatening to overwhelm local health systems. Abbott also halted elective surgeries in Bexar, Dallas, Harris and Travis counties in hopes of expanding hospital capacity in what has become the most recent hot spot for the virus. This morning, Abbott issued an executive order to close bars at 12:00 PM today and limit restaurant capacity to 50% beginning Monday in hopes of preventing further spread of COVID-19. In addition, rafting and tubing businesses will be required to close, while outdoor gatherings of 100 or more will be required to get approval from local governments. Since June 1, cases have doubled in Texas and hospitalizations have tripled, although the number of deaths have remained low. The apparent reason for this is that the rise in infections has disproportionately affected younger people with stronger immune systems. Older Americans seem to be taking necessary precautions to keep themselves safe.

Florida is facing a very similar situation as the virus spread is suddenly accelerating in a state thought to be largely spared. Florida bars were also ordered closed today, although that order came from the Florida Department of Business and Professional Regulation, not the governor. There's clearly much at stake for the Florida economy. Disney theme parks were scheduled to begin reopening on July 11, but this date was pushed back to beyond July 17 on Wednesday, while the NBA season is still scheduled to resume at the end of July with 22 professional basketball teams all huddling together at the Disney Sports Complex in Orlando.

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Stocks fell today along with Treasury yields in response to the idea that the economy may have opened too aggressively. Making predictions hasn't gotten any easier. Jobs are the key to recovery, but recent flare-ups in Texas, Florida and California along with the unfortunate fact that nationwide cases reached a new single day high on Wednesday, are tapping the brakes on further expansion and rattling the narrative that the worst is behind us.

Yesterday, the initial jobless claims data for the week ending June 20 showed a significantly higher number of Americans filing for unemployment. The 1.48 million total was well above the 1.32 million forecast, and suggests that some U.S. businesses are still laying off workers in mass at the same time others hire back workers they'd furloughed earlier. The total number of filers has declined in 11 of the past 12 weeks, although a million and a half Americans signing up for new benefits is far from encouraging. Continuing claims (the number *actually receiving* state unemployment benefits) for the week ending June 13, fell by over a million to 19.52 million, and have declined in each of the last five weeks. In addition, there are another 11 million self-employed gig workers receiving federal benefits under the new Pandemic Unemployment Assistance (PUA) program. This program, up by 1.76 million from the previous week, seems to have caught a number of states flatfooted. Four states, including Florida, Georgia, West Virginia and New Hampshire have yet to file a claim. It's a similar story for those trying to file for Pandemic Emergency Unemployment Compensation (PEUC), which is federal assistance to those who have exhausted both state and federal sources. Although about 850k Americans are receiving benefits under this program, more than a dozen states have yet

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to participate. This is a long way of saying the employment situation is more tenuous than the upbeat May employment report had suggested as more than 30 million are currently receiving some form of unemployment benefit. And, while unemployed workers wait for their jobs to reappear, they're increasingly reliant on an already stretched government safety net. This is a weak foundation for ongoing recovery.

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Also yesterday, durable goods orders jumped +15.8% in May, bettering the +10.5% median forecast and registering the largest increase in six years. Unfortunately, the May surge was more than offset by the miserable April orders, which were revised downward from -17.7% to -18.1%. Like just about every economic indicator, durable goods orders are reflecting the shutdown and reopening. It's tough to draw much of a conclusion without months of additional data.

This morning, personal income and spending were released for the month of May. Spending rose +8.2% after an upwardly revised, but still record low -12.6% drop in April, while income fell -4.2%, following a revised +10.8% record gain in April. The savings rate retreated from a stunning 33% in April to a still remarkable 23.2% in May. There are countless factors contributing to this wildly elevated number.

And earlier this week, the final reading of first quarter GDP held steady at -5.0%. Although this represents the weakest economic growth in 11 years, the second quarter threatens to be much worse. The Atlanta Fed's GDPNow measure indicated -39.5% as of this morning. The actual Q2 GDP release is still more than a month away, but the forecasted depth of the COVID-19 hole is breathtaking. We've already begun digging out, but it looks like the government may have to provide a bigger shovel.

Market Indications as of 3:45 P.M. Central Time

DOW	Down 730 to 25,016 (HIGH: 29,551)
NASDAQ	Down 260 to 9,757 (HIGH: 10,131)
S&P 500	Down 75 to 3,009 (HIGH: 3,386)
1-Yr T-bill	current yield 0.16%; opening yield 0.17%
2-Yr T-note	current yield 0.17%; opening yield 0.19%
5-Yr T-note	current yield 0.30%; opening yield 0.33%
10-Yr T-note	current yield 0.64%; opening yield 0.69%
30-Yr T-bond	current yield 1.37%; opening yield 1.43%