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Eco News is Upbeat Amid Growing Virus Concerns

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

Economic releases continue to take a backseat to the recent spike in new coronavirus cases. Yesterday, Anne Schuchat, director of the CDC, said the virus is now spreading too fast and too far in the U.S. to be controlled. Federal Reserve Chairman Jay Powell, testifying before the House Financial Services Committee on the economy and monetary policy, acknowledged the recovery began sooner than expected, but the outlook is "extraordinarily uncertain and will depend in large part on our success in containing the virus." Powell also said "a full recovery is unlikely until people are confident that it is safe to reengage in a broad range of activities." Also yesterday, infectious disease expert Dr. Tony Fauci told a Senate panel he was "very concerned" about the direction of the spread and warned that if Americans did not take precautions new cases could rise to 100,000 a day.

The U.S. has become a major global hotspot with new cases in Florida up nearly 300% in the past two weeks, while new cases in Texas have risen nearly 200%. Total confirmed cases in the U.S. are now above 40,000 per day, compared to just 6,000 per day in the entire European Union. The EU reaffirmed its ban on Americans entering Europe for nonessential travel, while Canada recently extended its ban on nonessential travel to and from the United States.

There was some positive news on the vaccine front this morning as an early trial of an experimental shot from Pfizer and BioNtech allowed patients to produce antibodies. The race for a cure has now shown promise on several fronts. The path back to normal hinges on a vaccine.

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With the financial markets closed on Friday for the July Fourth holiday, the monthly labor market report moves to Thursday. Admittedly, whatever numbers the Bureau of Labor Statistics (BLS) releases will be open for interpretation and largely irrelevant, but jobs will be the ultimate measuring stick over the next couple of years, so investors will tune in. The Bloomberg median forecast is for a June nonfarm payroll gain of nearly 3.1 million jobs, following a record 2.5 million jobs (re)added to payrolls in May. Given the extreme unreliability of recent estimates, it would be a surprise if the BLS payroll number were within a million of the forecast either way. It's also likely that prior month revisions could be significant. Two large back-to-back increases would be encouraging, but with business payrolls shedding 22 million jobs in March and April, there would still be considerable ground to make up.

This morning, the ADP payroll change report showed nearly 2.4 million private sector jobs were (re)added in June with 1.9 million coming from the service sector. The June ADP payroll increase was well below the 2.9 million forecast, but the real story was in the prior month revision. The May payroll tally was recalculated from a -2.8 million drop to a +3.1 million increase, bringing it now more in line with the +2.5 million increase in the May BLS report. According to ADP sources, the economy has now regained 27% of the 19.7 million jobs lost … but obviously the labor market recovery takes a hit if Americans are subsequently forced back inside.

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Because the contraction has been so severe, subsequent sharp rebounds in most of the economic data has been unprecedented. On Monday, May pending home sales (contract signings on existing homes that have not yet closed) surged by a record +44.3% following drops of -21.8% and -20.8% in the previous two months. On an annualized basis, pending sales are still down -10.4%. Existing home sales, which fell to their lowest

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point since October 2010 last month, are likely to move sharply higher in the coming months given their high correlation to pending sales. In fact, the National Association of Realtors noted "the outlook has significantly improved, as new home sales are expected to be higher this year than last, and annual existing-home sales are now projected to be down by less than 10% – even after missing the spring buying season due to the pandemic lockdown." This housing surge, amid continued uncertainty and widespread unemployment, has been an odd and pleasant surprise. Historically low lending rates have certainly contributed to the rise in home sales, but like most rebounding data, it doesn't yet indicate a trend.

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Yesterday, the Conference Board announced its measure of consumer confidence jumped 12.2 points in June to 98.1. The present conditions index improved for the first time since January, climbing from 68.4 to 86.2. The 17.8 point increase was the largest in 46 years, but it was still almost 88 points below the January reading. The future expectations index increased for the third month in row, rising from 97.6 to 106, just 2.1 points below the year's high point from February. Confidence is highly correlated to employment outlook and stock market performance, but doesn't necessarily translate into higher spending. And, since the cutoff date for the survey was June 18, most of the gloom over the recent virus surge was missed and the data is suddenly stale. At the moment, all eyes are on COVID-19 as the number of cases move sharply higher.

This morning, the ISM manufacturing index climbed from 43.1 to 52.6 in June, topping the median forecast of 49.6. New orders jumped from 31.8 to 56.4, while production rose from 33.2 to 57.3. On the surface, these are tremendous numbers, all signaling a strong move from contraction to expansion in the factory sector. However, the purchasing managers' survey indicates upward progress from a very low floor and recent virus spread may limit further progress.

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Stocks are up across the board in early trading, with the NASDAQ reaching yet another new record high. Bond yields are up slightly on the day, but remain near historical low(s) along much of the curve.

Market Indications as of 12:50 P.M. Central Time

DOW	Up 5 to 25,807 (HIGH: 29,551)
NASDAQ	Up 87 to 10,146 (NEW HIGH)
S&P 500	Up 19 to 3,119 (HIGH: 3,386)
1-Yr T-bill	current yield 0.15%; opening yield 0.15%
2-Yr T-note	current yield 0.16%; opening yield 0.15%
5-Yr T-note	current yield 0.31%; opening yield 0.29%
10-Yr T-note	current yield 0.67%; opening yield 0.66%
30-Yr T-bond	current yield 1.43%; opening yield 1.41%