



Surviving

While markets and economists braced for record-high unemployment and record-low business activity, seeing the records broken was shocking; they were exponentially higher than anything seen previously. More than 20 million Americans filed for unemployment in April, on top of 10 million filing in March. By May 1, more than 10 million remained backlogged at state labor offices.

China's economy gave us insight into what to expect after reopening. Its state manufacturing PMI, which covers state-owned-enterprises and larger firms than the Caixin PMI, showed a sharp V-shaped bounce, followed by a drop. Taking the report at face value, it signals China's manufacturing economy is not back to pre-coronavirus levels but, rather, at levels better than the previous month of zero-to-limited economic activity.

Q1 earnings shed light on the virus' early impact across industries. The largest banks missed earnings for the first time since the GFC, airlines reported losses, and retailers filed for bankruptcy. Most companies earnings weakened, yet equity markets had their best rebound since 1987.

ECONOMICS

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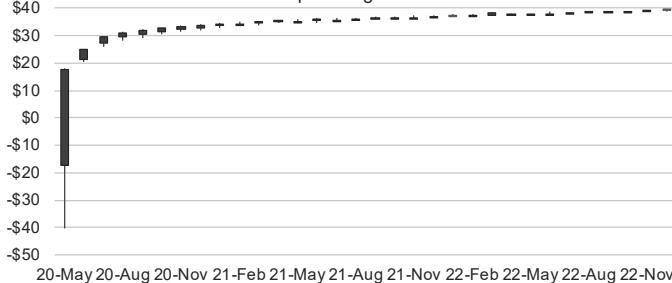
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Prices convey information after all

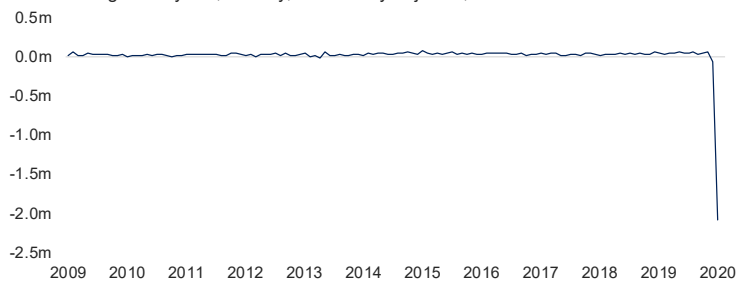
Crude oil futures settlements price negative for first time ever



May 2020 futures contracts reflected crude oil's global oversupply. WTI crude futures prices turned negative — to a low -\$40.32 — in an unprecedented move. The negative price reflected traders paying others to take contracts off their hands, before settlement, to avoid physical delivery. US crude storage at Cushing, Oklahoma, was weeks away from full capacity and OPEC+ production cuts of 9.7m bpd were insufficient to rebalance supply with an estimated 25m-30m bpd drop in demand.

Health care and social assist. lose 2.1m jobs

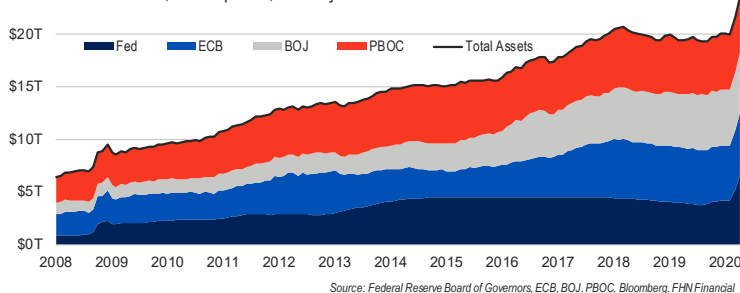
Change in Payrolls, Monthly, Seasonally Adjusted, Millions



During a pandemic, healthcare is the last place one expects to see 1.5m layoffs. But, in April, nearly all states reported thousands of layoffs at offices of dentists (-521k), physicians (-258.5k), and general healthcare practitioners (-212.7k), as elective surgeries were postponed and offices temporarily closed. The CARES Act and Paycheck Protection Program and Health Care Enhancement Act offered \$175b to hospitals.

Major central banks add \$3.4T to balance sheets in 2020

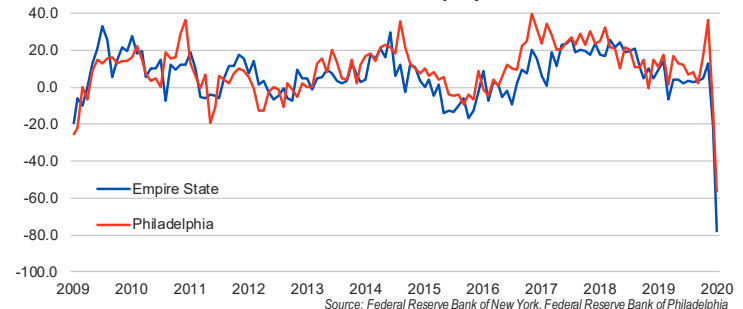
In trillions USD, end of period, monthly data



The Fed accounts for \$2.4T of the \$3.4T central banks added to balance sheets in 2020. It increased its balance sheet 26.7% (or \$1.4T) over the month, taking its total to \$6.66T at April's end. Reserves, currency, and the Treasury's general account comprise most of the increases on the liabilities side. The ECB also added aggressively — €655b, or about \$720b — to its balance sheet. The BOJ has been less aggressive, while the PBOC has yet to release its April data but promises to unleash its own QE to go along with its digital currency, which it unveiled the last week of April.

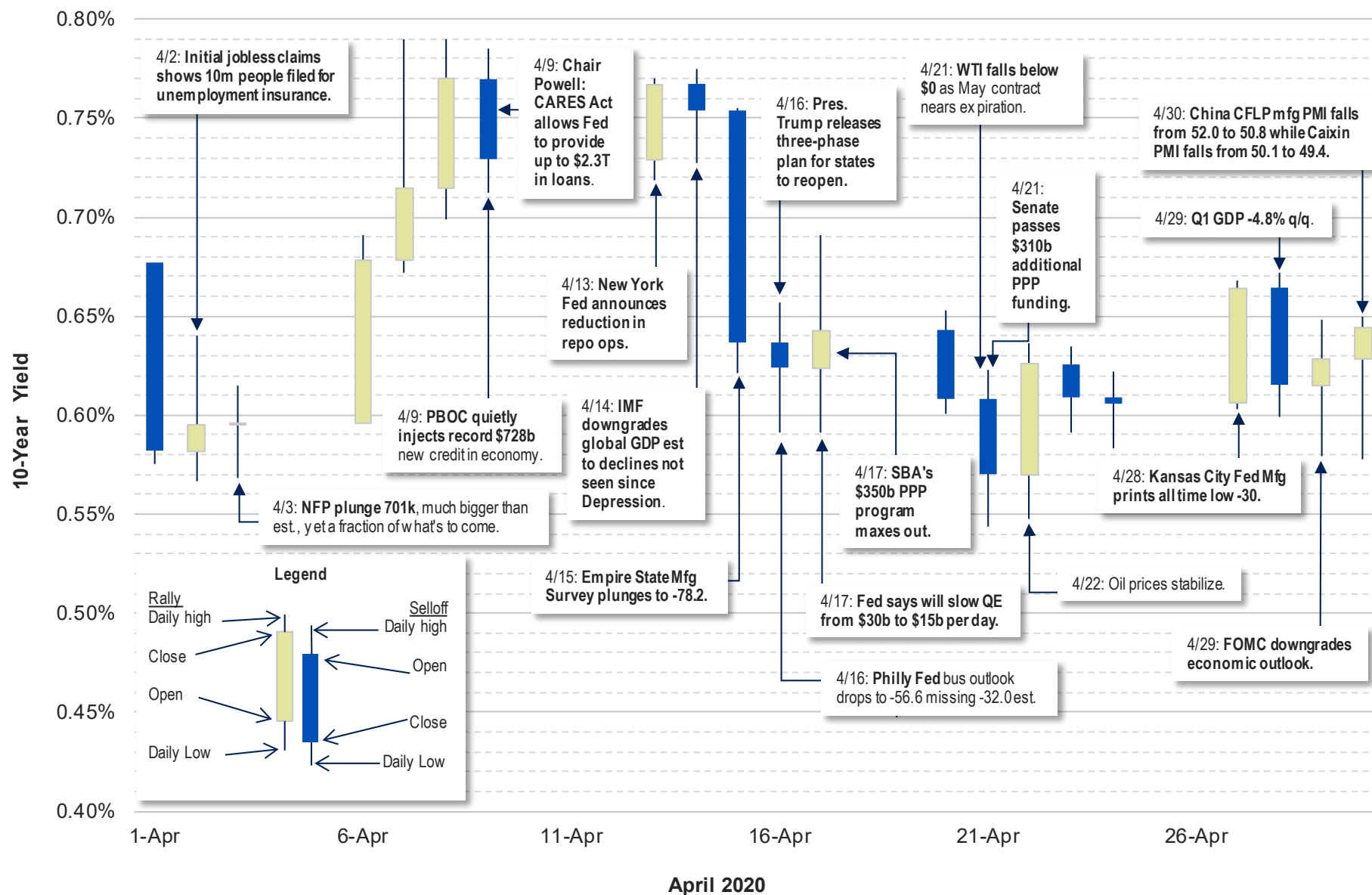
Regional Fed surveys plunge

Current Conditions, Diffusion Index, Seasonally adjusted, % Bal.

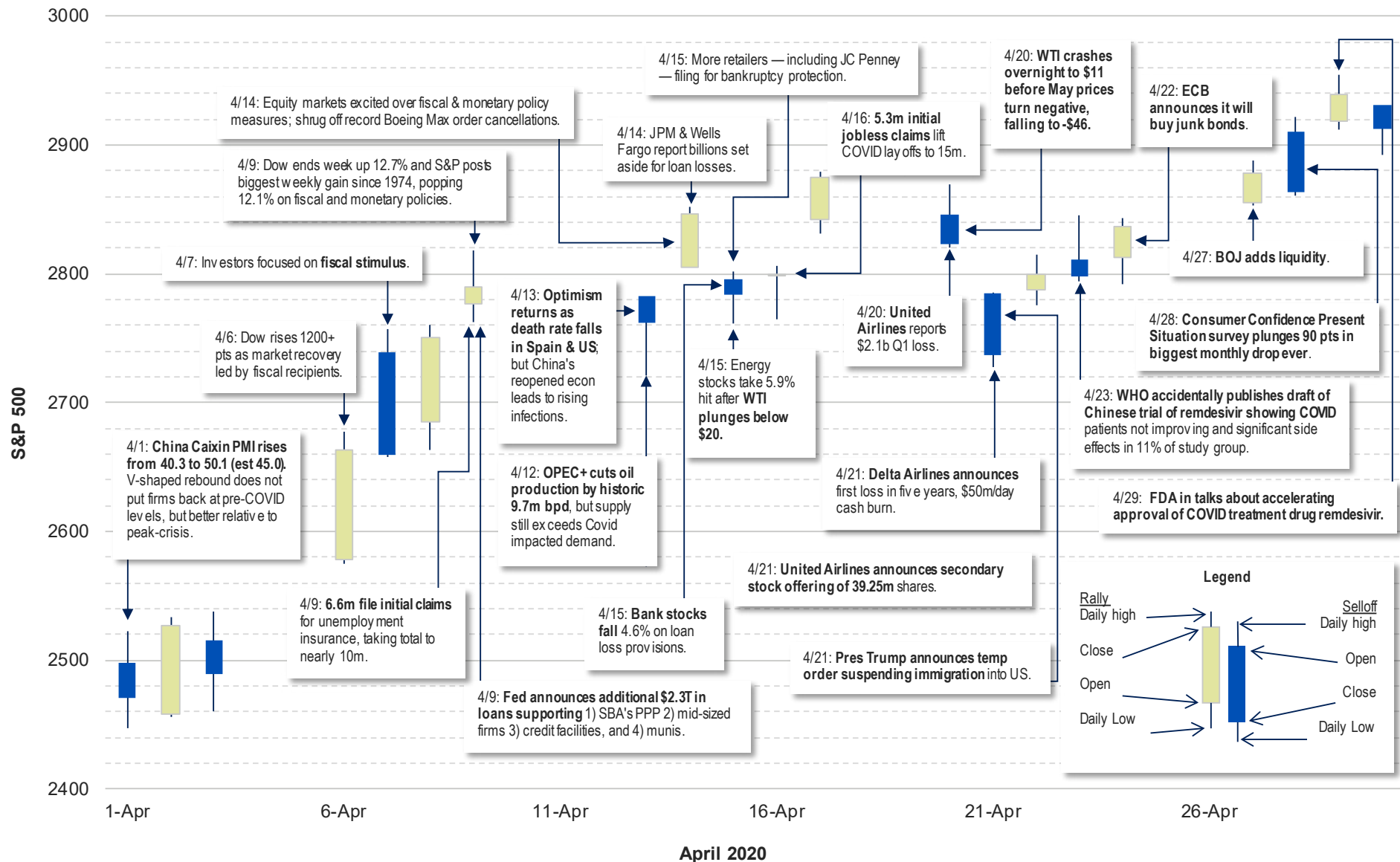


Regional Fed surveys were projected to fall to financial-crisis lows, but ended up falling well below those targets. The Empire State Manufacturing survey plunged 57 points to -78.2, an all-time low by a factor of 2.4x. New orders and employment levels contracted at record paces. Philadelphia's Fed business outlook also plunged from -12.7 to -56.0 missing consensus of -32.0, but the the expectations index showed firms anticipate conditions to ease somewhat in six months.

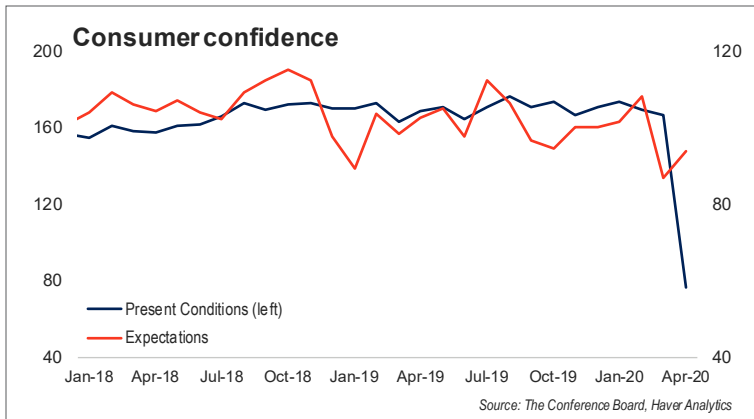
Market-Moving Events: 10-Year Treasury



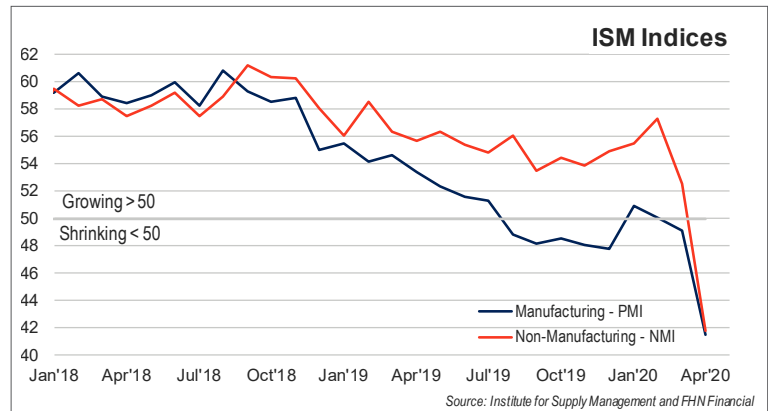
Market-Moving Events: S&P 500



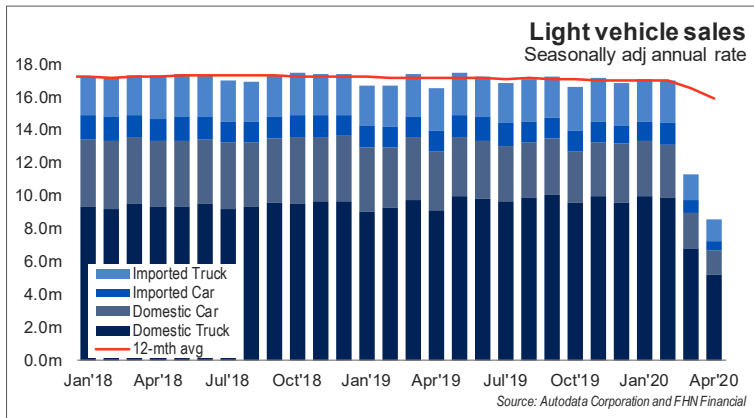
Data Watch: Key Economic Indicators



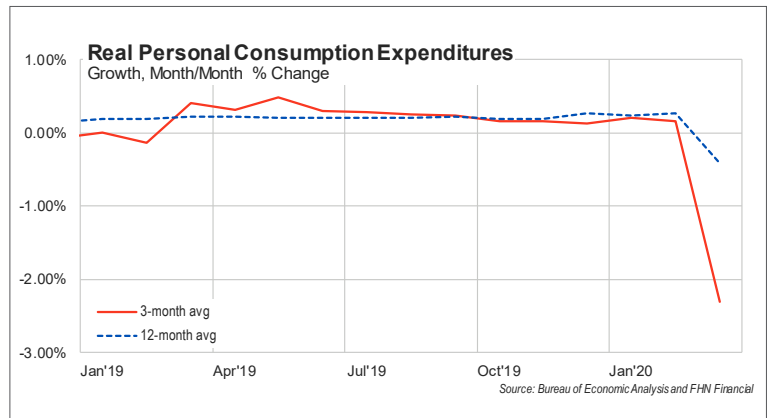
April's Consumer Confidence plunged 31.9 points, from 118.8 to 86.9. Present conditions led the fall with a 90-point drop, its largest fall and 3.5 times worse than previous lows. Expectations rose 7 points to 93.8, which reflects 78% of people who lost jobs expecting to be rehired after the lockdown.



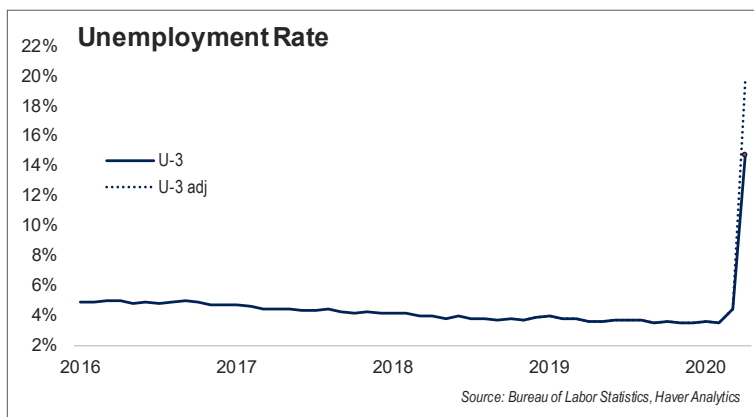
After regional Fed surveys hit record lows in April, economists expected ISM manufacturing PMI to plummet to 36.7. April's PMI was 41.5; adjusted for an 11-point rise in supplier deliveries inversely reported, PMI would be 37.1. Non-manufacturing PMI was 41.8, but adjusted for deliveries, it was 35.7.



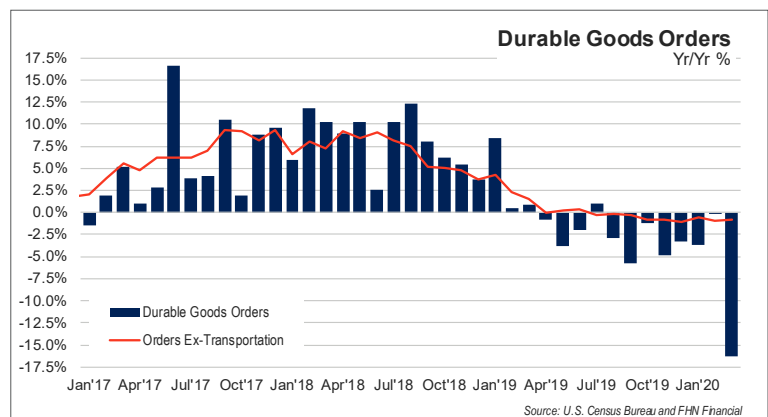
Light vehicle sales were trending downward well-before COVID-19; the pandemic pushed April's sales down 47.9% yr/yr on an annualized basis, and dealer lots to inventory overflow. However, April's 8.6m SAAR unit sales surprised markets, which expected 6.5m.



Real consumption fell 7.3% m/m in March. Services, unsurprisingly, took the biggest hit with a 6.2% drop, while durables were clipped 2% m/m. Nondurable goods spending jumped +1.0% m/m reflecting consumers swapping restaurant spending for groceries, cleaning supplies, and disinfectants.



April's headline unemployment rate, the U-3, was 14.8%. But, the BLS reported it would have been 5% higher, or 19.8%, had employees absent from work due to COVID-19 been correctly classified as unemployed. The U-6, which includes discouraged, marginally attached, and involuntarily part-time workers rose to 22.8%.



March's durable goods orders fell 16.2% yr/yr and 14.7% mo/mo led by a 41.3% drop in transportation equipment. We exclude transportation from durable orders to eliminate volatility, but transportation orders fell more than orders ex-transportation in 10 of the past 11 months, suggesting meaningful additional weakness.

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