

Consumers, Start your Engines

Despite the widespread economic displacement from the COVID-19 lockdown, an optimistic case can be made for a rebound in consumer activity over the next few months. The U.S. consumer accounts for approximately two-thirds of economic activity, so a healthy consumer is the engine of the U.S. economy. With the continued phase-in of activity, workers should start returning to their jobs and, as consumers, they should start to spend in more discretionary areas such as travel, entertainment, apparel, and other categories that have been restricted during the lockdown.

First-time unemployment claims for the week of May 23rd decreased to 2.123 million versus 2.466 for May 16th. Continuing Claims for the week of May 16th were 21.052 million, down from 24.192 million for May 9th. The decline in continuing claims for unemployment is a welcome sign that some workers are returning to their jobs. Employment is perhaps the key economic factor for a recovery.

In our *Dissecting Headlines* section we look at how the COVID-19 induced lockdowns have caused a steep increase in the savings rate. The combination of government stimulus coupled with an inability to spend it has given U.S. consumers a build up of cash that could be deployed when a combination of confidence and ability present themselves as the economy re-opens.

With 489 companies in the S&P 500 finished reported earnings for the first quarter, the consolidated earnings for the quarter should finish down around 12.6% on a revenue decline of 1.4%. The first quarter only saw about one month of COVID impact. Second quarter earnings are currently projected to be down approximately 42.8% on a 12.3% decline in revenue. Second quarter should be the trough in earnings with declining negative impact during the second half of the year. Assuming no return of a COVID-like event, we should see above-average growth in 2021.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	3.0%	-5.8%	Aggregate Bond Index	0.1%	4.7%
Dow Jones Industrial Average	3.8%	-11.1%	U.S. Dollar Index	-1.5%	1.9%
NASDAQ 100	1.5%	9.4%	WTI Crude Oil	6.7%	-41.9%
Russell 2000 (Small Cap Index)	2.9%	-16.4%	Gold	-0.4%	13.8%
International Stocks (MSCI ex-US)	4.2%	-14.7%	Real Estate (US REIT Index)	4.5%	-21.9%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Savings Rate

Once a consumer has paid their typical monthly obligations like mortgage, utilities, food and healthcare, the remaining funds can be spent on a discretionary basis for items like travel and entertainment. One impact of the COVID lockdown is that there has been limited ability to spend on these discretionary items. This, in turn, has boosted the Savings Rate.

The Savings Rate is the percentage of discretionary income that is not spent. Measured monthly by the U.S. Bureau of Economic Analysis, the April savings rate in the United States reached a record of 33.0%. This is well above the 12.7% in March and the recent trend of 7% to 9%. The previous record was 17.3% in May 1975.

The upside to the increase in the savings rate is that there is likely a pent-up demand for discretionary spending. Once entertainment options outside the home become available and travel becomes more accessible, we think a flow of discretionary spending returns from the savings being accumulated during the lockdown. Additionally, while oil prices have staged a comeback over the past month, retail gasoline prices are still inexpensive relative to recent history. This could be a further prompt for consumers who may consider a domestic, driving vacation this summer, even if there is trepidation over air travel.

The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Jeff has 10 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Christina has 25 year of accounting experience. She earned her CPA license in 1998 while working as a Senior Accountant for Bennett Thrasher PC. She has also worked in accounting roles in the financial services, public relations, and manufacturing industries. She earned her BS in Accounting at Miami University in Oxford, Ohio magna cum laude. She is a member of the American Institute of Certified Public Accountants (AICPA) and a member of the Georgia Society of CPAs.

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