

Tug O' War

The tug o' war between economic improvement and the resurgence of COVID-19 has the equity market gyrating back and forth depending which sentiment rules the headlines each day. We have a few weeks before the second quarter earnings reports start, so the economic data and COVID headlines are the main catalysts for market direction. An example from last week would be the strong retail sales data for May contrasted with resurgence of COVID cases in several states.

Retail sales for May were +17.7% month-over-month. Several beleaguered categories showed a sharp rebound such as apparel (+188%), furniture (+88%), and motor vehicles and parts (+44%). Gasoline stations posted a 13% increase as driving miles have picked up. Online retail was 9% higher after being one of the few positive categories in both March and April. As mentioned last week, a combination of discretionary cash flow and a pent-up demand to use it likely persists in the near-term.

The current consensus for second quarter S&P 500 earnings is for a year-over-year decline of 42.9% on a 12.0% revenue decline. The bulk of the COVID related impact to the economy should be experienced in the second quarter and should mark a trough in both earnings and GDP decline in the U.S. Second quarter GDP is currently forecast to be down 34.8%. Barring another COVID-like event, we should see incremental growth in the second half of 2020 and above-average growth in 2021.

Initial unemployment claims for the week of June 13th decreased to 1.508 million versus 1.566 million the week prior. The four-week moving average decreased to 1.774 million. Continuing Claims for June 6th were 20.544 versus 20.606 the week prior. The weekly new claims are being counterbalanced by new jobs created and furloughed workers returning to jobs. We view gains in employment to be a significant indicator of the health of the economy and a measure of a return to normal economic and social activity.

In our *Dissecting Headlines* section we look at Durable Goods Orders.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	1.9%	-4.1%	Aggregate Bond Index	0.2%	4.8%
Dow Jones Industrial Average	1.1%	-9.3%	U.S. Dollar Index	0.3%	1.1%
NASDAQ 100	3.6%	14.6%	WTI Crude Oil	9.6%	-34.9%
Russell 2000 (Small Cap Index)	2.3%	-15.0%	Gold	0.8%	14.9%
International Stocks (MSCI ex-US)	-0.2%	-11.9%	Real Estate (US REIT Index)	-2.0%	-19.3%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Durable Goods Orders

Durable goods are items that are meant to have a longer lifespan such as furniture, appliances, and motor vehicles, as well as industrial items such as machinery, aircraft, and military hardware. The monthly Durable Goods report released by the Census Bureau provides data on durable goods shipments, inventories, and new orders.

The new orders receive attention each month as they can indicate demand in the economy. Transportation goods such as trucks and commercial airplanes can have a long lead time and a lumpy order pattern, so the report presents data with and without this category. Military equipment can likewise have an irregular pattern.

Durable goods orders declined sharply in March and April as the economy was hit with the COVID-19 shutdown. Especially hard hit was the transportation category as commercial airline traffic declined and airlines struggled with financial liquidity. Durable goods for April were -17.2% from March and -7.4% excluding transportation.

For May, durable goods orders are expected to rebound approximately 12% and 4% excluding transportation goods. The report is scheduled for June 25th.

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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