

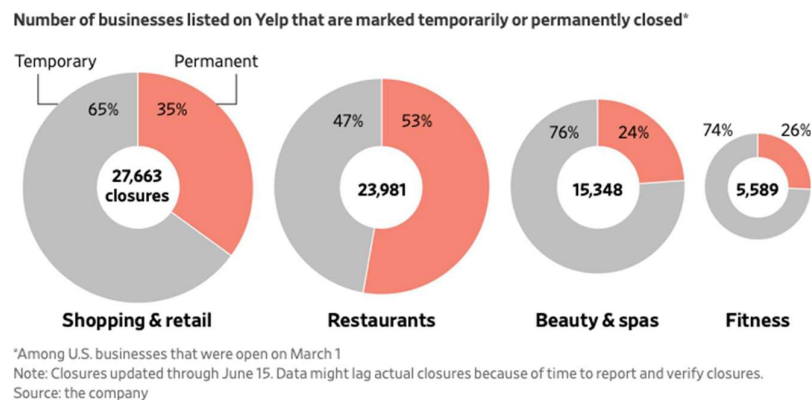
## Monthly Commentary 2<sup>nd</sup> July 2020

June capped one of the strongest quarters ever for equities as the rebound from the March lows continued unabated. The strongest markets for the month, up about 6%, were in Europe ex-UK and the Emerging Markets. For the year to date the UK's FTSE-100 is the laggard with a drop of more than 18%. Bonds also continued their rally and commodities, led by oil, were up more than 4% on aggregate. The USD Index fell almost 1%.

### What next?

With so little visibility on future earnings, many companies are reluctant to provide guidance. So investors remain in the dark and any prediction is fraught with so many moving parts that it would probably be wrong.

The argument for negativity and caution is easier to make. The world economy is far from normal and there are massive challenges ahead. The graphic below shows the number of businesses listed on Yelp (a company that publishes crowd-sourced reviews of retail businesses) that were open on March 1<sup>st</sup> but are still either temporarily or permanently closed. It is not good to see how many permanent closures there have been.



With establishments still closed, the effect on unemployment is huge. In fact, the percentage of the total population in the US that is employed has fallen more dramatically than during the great financial crisis. The chart on the next page, which shows the “employment-population” ratio going back to 1948, makes for scary viewing.



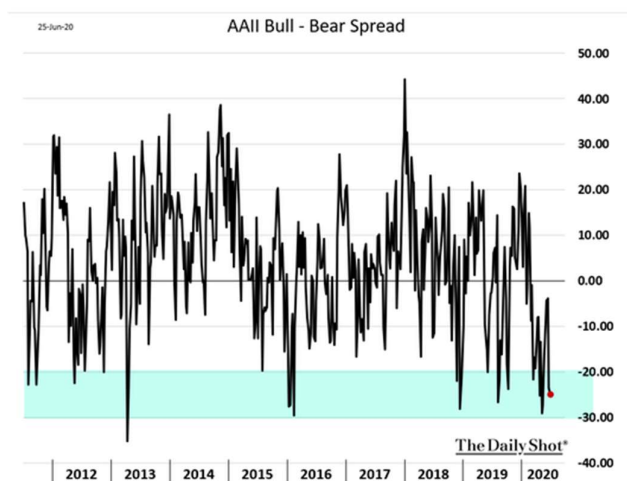
## About half of U.S. population is jobless



Employment-population ratio since 1948. While the unemployment rate (13.3% in May) measures those who are actively looking for and available to work, this metric measures employment of the entire adult population.



To counter the negativity, governments and, especially, Central Banks are doing whatever it takes to help. So far, the markets have heeded this message and are somewhat pacified by the “Fed put”, counting on the US Federal Reserve to prevent markets from crashing. It also helps that there is still much skepticism with regards to the strong market bounce. The difference between bulls and bears among American retail investors is still largely lopsided towards the bears. Being a contrarian indicator it could be interpreted as good for the markets.



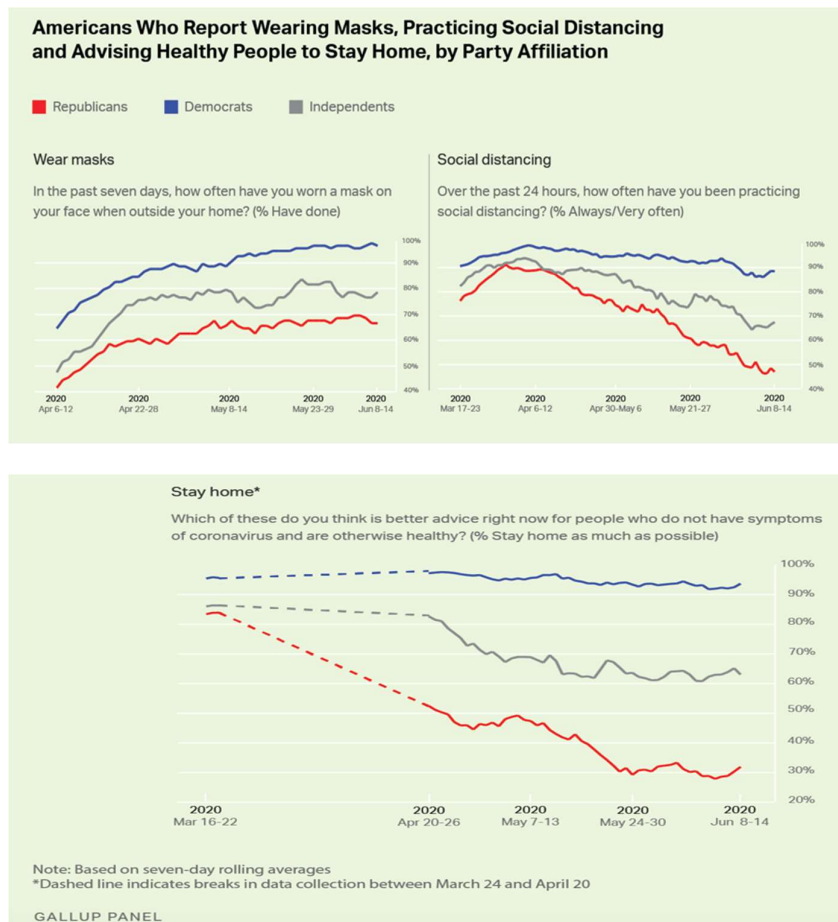
This negativity seems to pertain to institutional investors as well. On the next page we show the Bank of America “Bull-Bear” indicator which reflects the sentiment of institutional investors, and is also used as a contrarian indicator of market direction.



Source: BofA Global Investment Strategy

### Political affiliation and Covid-19

We find it amusing that the polarization of American politics has reached such an extent that it is reflected in how they conform to wearing masks, social distancing and staying at home. The Gallup poll below says it all.





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