Financial Markets Commentary – 8/3/2020

by Robert G. Kahl, CFA, CPA, MBA

Economic Statistics and Withering Confidence

The Bureau of Economic Analysis (BEA) reported that real gross domestic product (GDP) decreased at an annual rate of 32.9% during the second calendar quarter of 2020. This is their "advance estimate" that is based on source data that is incomplete and subject to further revision. The "annualized" part of the statistic means that they are assuming the declining trend remains in place for four quarters. A comparison of GDP in the second quarter 2020 to the second quarter of 2019 shows a decline of 9.5%.

Since the pandemic lockdowns began, 54.1 million Americans have applied for jobless benefits. The editors of ZeroHedge.com also highlighted some other troubling statistics that reflect a poor economic outlook:

- According to the Associate Press – NORC Center for Public Affairs Research, within households experiencing job loss, 47% believe that their job loss is likely to be permanent.
- 80% of independent restaurants aren't sure they'll survive the COVID-19 pandemic.
- In July, 24.5% of small businesses were closed.

The impact of the COVID-19 lockdowns has varied substantially by industry. Since working remotely has become more prevalent during the COVID-19 lockdowns, some technology companies have maintained their growth rates or even benefited greatly. For the June quarter, Microsoft and Apple had revenue growth rates (versus the prior year's quarter) of 12.8% and 10.9%, respectively. Zoom Video Communications reported their most recent quarterly results at the end of April and their revenue increased 169.0% from a year ago.

In addition to restaurants, travel-related companies have taken some of the biggest hits to their businesses. Delta Airlines reported a revenue decline of 88.3% for the June quarter. Marriott International has not yet reported their June quarter, but revenue estimates for the entire year reflect a decline of 39%.

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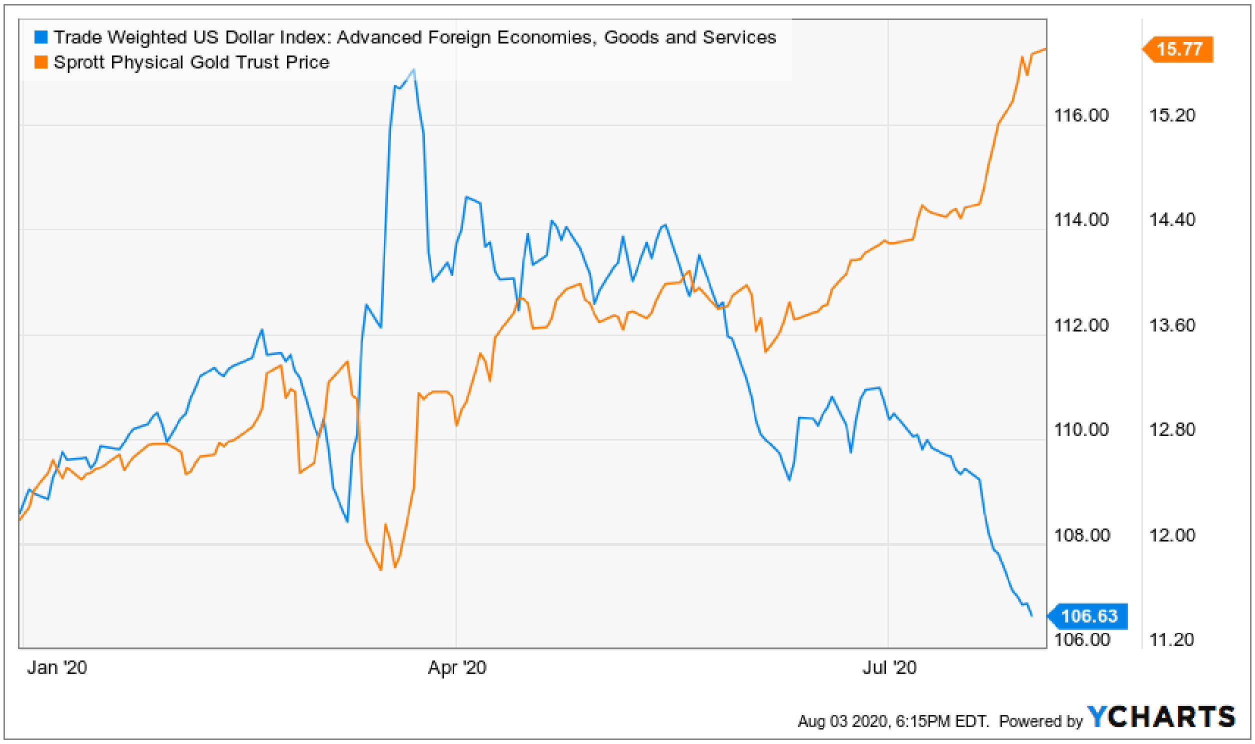
Congress and the Fed

The $600 per week supplemental unemployment payments and a moratorium on evictions that were implemented earlier this year have expired. There are currently two proposals in Congress to provide some stimulus to the economy and mitigate some of the damage to households and businesses. In May, the Democrats passed a $3.5 trillion plan. Last week, Senate Republicans introduced a $1 trillion aid package. At this point, the differences between the plans is enormous, even by Congressional standards.

In June, the US Government budget deficit was $864 billion – in a single month! The government borrowing has been enabled by the Federal Reserve (Fed) because it essentially buys all the net new debt that is issued. Thus, the Fed has seen its balance sheet expand from $4.1 trillion in March of this year to $6.9 trillion at the end of July. There is no discussion of putting the country on a path to a balanced budget or reducing debt outstanding. The Fed has signaled its intention to be the buyer of first resort to accommodate the Congressional indulgence for borrowing money which can be easily created. Economic history clearly shows this is a dangerous path for fiscal and monetary policy, but it represents the path of least resistance for now.

Precious Metals Update

The US trade weighted dollar index began to slide on May 22 and about one month later, both gold and silver began to appreciate rapidly. See the chart below. July was a good month for precious metals. Given the fiscal and monetary dynamics, I believe that both gold and silver will continue to be strong currencies relative to all major currencies for the remainder of the year.



If you have any questions or comments, please contact me.

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