April 2020 Review

MEEDER
INVESTMENT MANAGEMENT

Monthly Market Commentary

DISCUSSION POINTS

» Unemployment Spikes

» Jobless Claims Soar

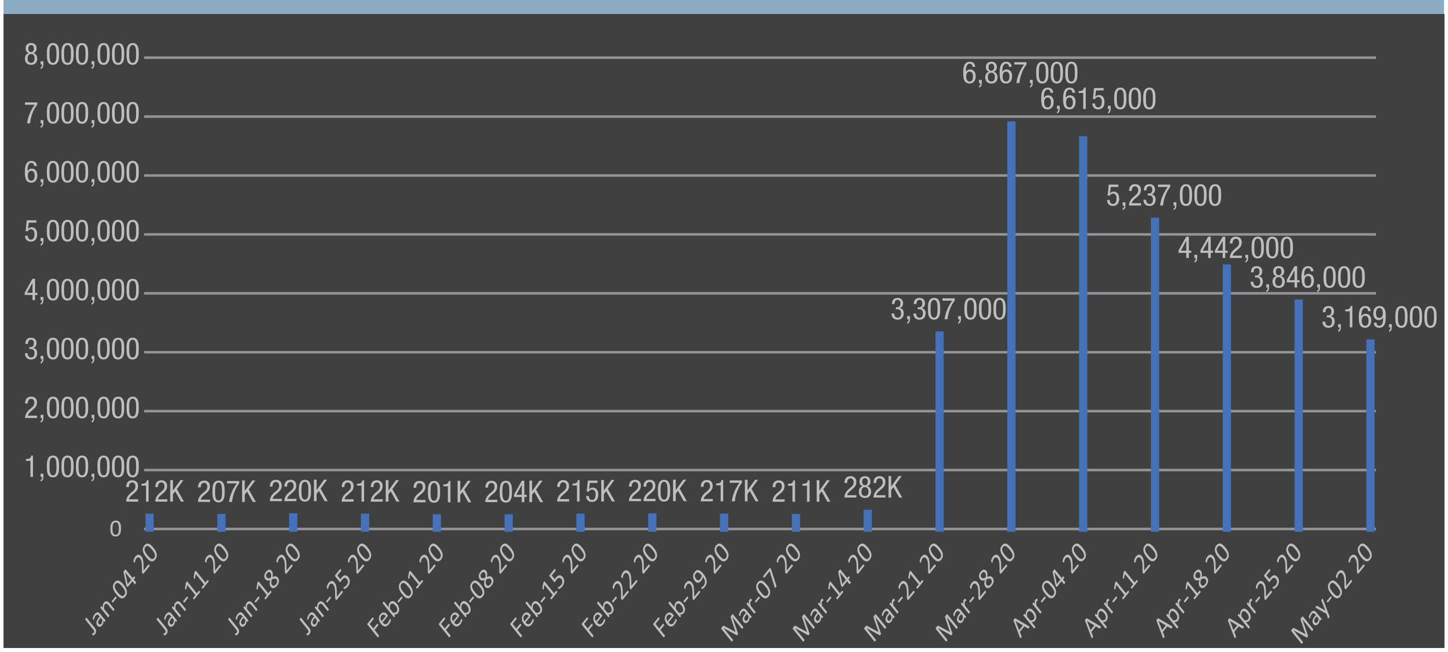
» Oil Futures Turn Negative

The world economy has nearly grinded to a halt for the past two months, as the COVID-19 pandemic continues to cripple commerce. U.S. productivity, as measured by GDP, contracted 4.8% during the first quarter of 2020. It is very likely that the 2nd quarter's results will show that, at a minimum, the U.S. is in the depths of a substantial recession.

It is no secret that the lifeline of the U.S. economy is driven by consumer spending. This vital metric showed that spending fell 7.5% in March from the prior month, more than tripling the lowest number ever recorded, which was a 2.1% contraction in January of 1987. The Department of Labor also reported that an additional 3.2 million American workers filed for unemployment benefits in the final week of April. The total number of Americans that have filed for unemployment benefits since the middle of March 2020 has now reached 33.5 million. That is more than 1 in 5 Americans!

This surge in jobless claims caused the U.S. unemployment rate to spike from 4.4% in March to 14.7% in April. This level dwarfed the highest unemployment rate during the Financial Crisis, which was 10.0% in October 2009.If there is any good news that could be derived from this, the weekly initial jobless claims number has steadily trended downward since the final week of March.

INITIAL JOBLESS CLAIMS, WEEKLY, SEASONALLY ADJUSTED



Source: FRED

IAnother contributor to volatility in markets is the ill-timed price war between oil producers Russia and Saudi Arabia. Just as demand for oil across the world was plummeting due to the COVID-19 global pandemic, Russia and Saudi Arabia could not come to an agreement on oil production cuts. Each country maintained their production levels and essentially flooded the marketplace with additional supply. There was so much supply relative to demand that there was very little capacity to store oil. Near the end of April, Reuters stated that there are more than 160 million barrels of crude in tankers, 60% more than the previous record, floating at sea for storage purposes. In response to a lack of additional storage, oil futures contracts turned negative, reaching as low as -$37.63. For the first-time ever, investors holding the contracts at expiration were paid (more than $37 per barrel) to take delivery of oil. Under normal circumstances, this would be a great thing for consumers, as it has driven down the price of gasoline at the pump to multi-decade lows. Due to the "lockdown" from the COVID-19 pandemic, few consumers are benefitting.

Outside of the oil industry, many companies have ceased production, while others that are deemed essential are operating at full capacity. The ISM manufacturing Index is a measure that evaluates the health of the manufacturing sector and had reading of 41.5 in April. While this drop was significant from the March reading of 49.1, it was substantially higher than the consensus estimate of 35. A reading below 50 shows that the sector is contracting.

Medical personnel continue to collaborate with government officials, as they work together to formulate a plan to reopen different areas of the economy around the country. Some states are easing restrictions, while others are still finalizing their plan.

The world has changed so much, and so quickly. It is a great example of why we feel that it is imperative that investors have at least a portion of their portfolio allocated to a tactical manager. As we continue to navigate this new era, please know that we will continue to follow our time-tested models, which were designed to remove emotion from the decision-making process.