Weekly Market Review

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The Week Ending June 5, 2020

June picked up right where May left off with the S&P 500 Index finishing off another positive week. Friday overshadowed earlier parts of the week when the May jobs report was released. Many predicted May would be the worst month of job losses since the Great Depression era. Instead, we witnessed job growth, and not surprisingly, the market took off.

This jobs report, and the ensuing stock market reaction are difficult to understand. We experienced the economy coming to an almost complete shutdown that resulted in over 20 million jobs lost since March and a sharp sell-off in the stock market only to be followed by an even more substantial rebound. Now, May's jobs report beat expectations of a further decrease in employment and showed 2.5 million jobs added throughout the month. A robust and positive month should have been expected, considering the high unemployment reports over the last couple of months. However, this month may not be the all-clear the market seemed to conclude.

Because most of the job losses were in service-oriented sectors and many states began reopening in May, this growth could be an initial jolt of hiring to allow businesses that were closed to open, but with limited staff. Based on OpenTable data, restaurants are only operating at a little more than half capacity than before the COVID pandemic in Texas, Florida, and Georgia. If consumers do not return to businesses, we cannot expect this job growth to continue at the same rate.

Another factor explaining this growth could be Paycheck Protection Program loans that are forgiven if companies keep employees on payroll for at least eight weeks. Layoffs may have slowed for now, but jobs could be in jeopardy if state reopening plans do not go as scheduled.

The dynamics of how markets are traded could be having an impact as well. Most trading is conducted by computer algorithms, not emotional humans. Since computers can not react to the suffering COVID has caused, seeing a job number surpass expectations by such a wide margin was nothing but a positive indicator to buy.

Last week's job report shows how difficult investing can be. The best way to be a successful investor is to maintain a long-term outlook and not react emotionally to short-term events, especially ones that unexpectedly arise. No one knows what the job or stock markets will look like over the next couple of months, but we invest for decades and can be more confident in a positive outlook for the long term.

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