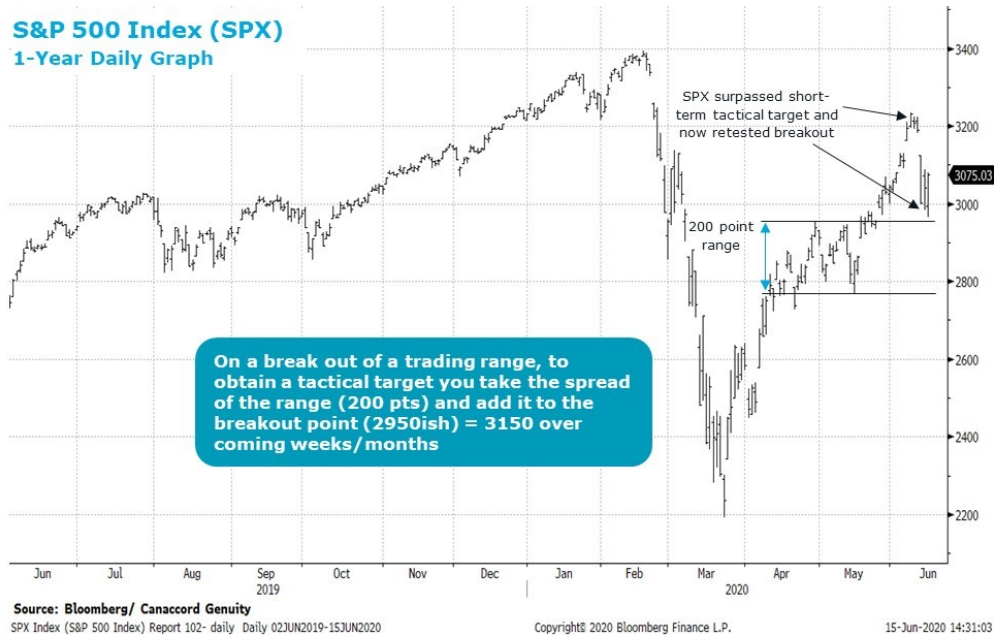


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## Consolidation happens fast

In [A natural place to rest](#), we highlighted the likelihood for a period of higher volatility that could track the first 7% correction off the March 2009 low, but we didn't expect it all in a week. In early activity yesterday, the S&P 500 (SPX) pulled back to the breakout point of the trading range (Figure 1), which has caused fear of a more serious decline like the one leading to the March 23 low. We think a replay of the March swoon is unlikely for a variety of reasons.

**Figure 1: SPX tested trading range breakout**



**1. The Fed remains historically supportive of risk.** One reason the market moves lower in a bear market is investors typically have to wait for the Fed to figure out how serious the problem is, but this Fed has been way ahead of the curve since late March with very clear language that has been backed up with action as evidenced by yesterday's SMCCF expansion. This monetary support has led to a historic rise in Money Supply (M2) and a Personal Savings Rate of 33% suggesting there is ample liquidity to spend once we fully reopen economic activity (Figure 2):

- March 26<sup>th</sup> Fed Statement – There is no dollar limit to the support of the credit market.
- April 9<sup>th</sup> Fed Statement – The Fed intends to buy various areas of High Yield and Municipal Debt.
- April 29<sup>th</sup> FOMC Press Conference – The Fed will continue to use its lending powers forcefully, proactively, and aggressively until they're confident we are solidly on the road to recovery.
- May 17<sup>th</sup> CBS 60 Minutes Interview – The Fed is just printing money, and now is not the time to worry about the consequences.
- June 10<sup>th</sup> FOMC Press Conference – Powell said the Fed is "not thinking about raising rates or even thinking about thinking about raising rates."

- June 15<sup>th</sup> – Fed Statement – It will begin buying individual corporate bonds under its Secondary Market Corporate Credit Facility. The SMCCF has capacity of \$250 billion, but has only invested \$5.5 billion so far.

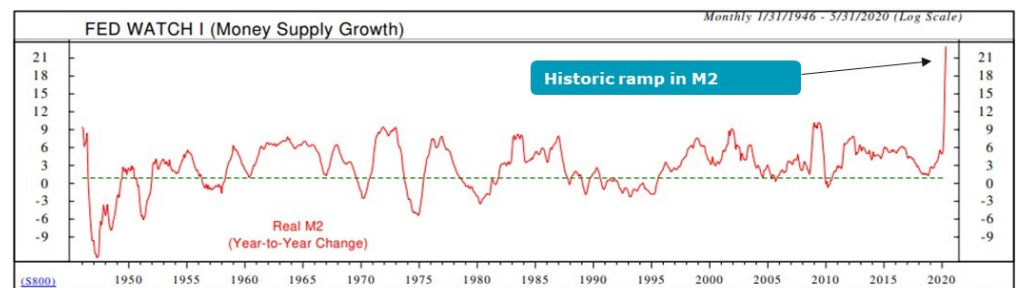
2. **Financial Conditions are easing.** How do we know the Fed has been ahead of the curve? Typically, there is significantly more tightness in Financial Conditions in a recession. Most economic data series have seen the worst readings since the Great Financial Crisis (GFC) or Great Depression, yet the Chicago Fed National Financial Conditions Subindices are showing continued improvement and never reached a level of stress that is associated with a recession (Figure 3).

3. **The economy is moving off worst levels.** One reason the market typically accelerates to the downside in a recessionary environment is a fear the economy can keep getting worse. When the government forced a shutdown to contain the risk to the healthcare system, we saw a historic rise in the U.S. Unemployment Rate (Figure 4) and a collapse in nearly every economic data series. As a result, the Citigroup Economic Surprise Index dropped to the lowest level since the GFC and within just two months has seen a record rise (Figure 5). Clearly, expectations became overly pessimistic.

4. **Covid-19 vaccine appears closer.** On top of Moderna's (MDNA) announcement in May that it was seeing success in developing a vaccine, Johnson & Johnson (JNJ) stated last week it was accelerating its human clinical trials from September to July, and Regeneron (RGEN) announced it is also beginning first clinical trials of a COVID-19 antibody drug. These suggest a higher probability of a more aggressive economic reopening in 2021.

**Summary – We want to add risk as the consolidation plays out.** At yesterday's low, the SPX was down 8% from the recent peak on fear of another wave of Covid-19 spread and the potential for a second economic shutdown. As stated above, the market swings have been at lightning speed and we believe many of the uncertainties that typically surround a crisis are on the path to recovery, albeit a choppy one pending broad distribution of a vaccine once approved. Our view since the April FOMC meeting has been to follow the Fed because they print the money and are actually putting it to work. After the recent ramp to SPX 3200, we continue to expect the market to spend the next few weeks in consolidation mode and would add to the economic reopening sectors on weakness. Despite the recent market consolidation, the leading areas since the trading range breakout on 05/26 have been the Banks, Industrials, Materials and Consumer Discretionary sectors and we see no reason for that to change once we have a clearer path to reopening with such historic monetary and fiscal stimulus.

**Figure 2: Money Supply ramp is historic**



Source: [www.ndr.com](http://www.ndr.com) / Canaccord Genuity

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Figure 3: Chicago Fed NFCI Subindices are easing

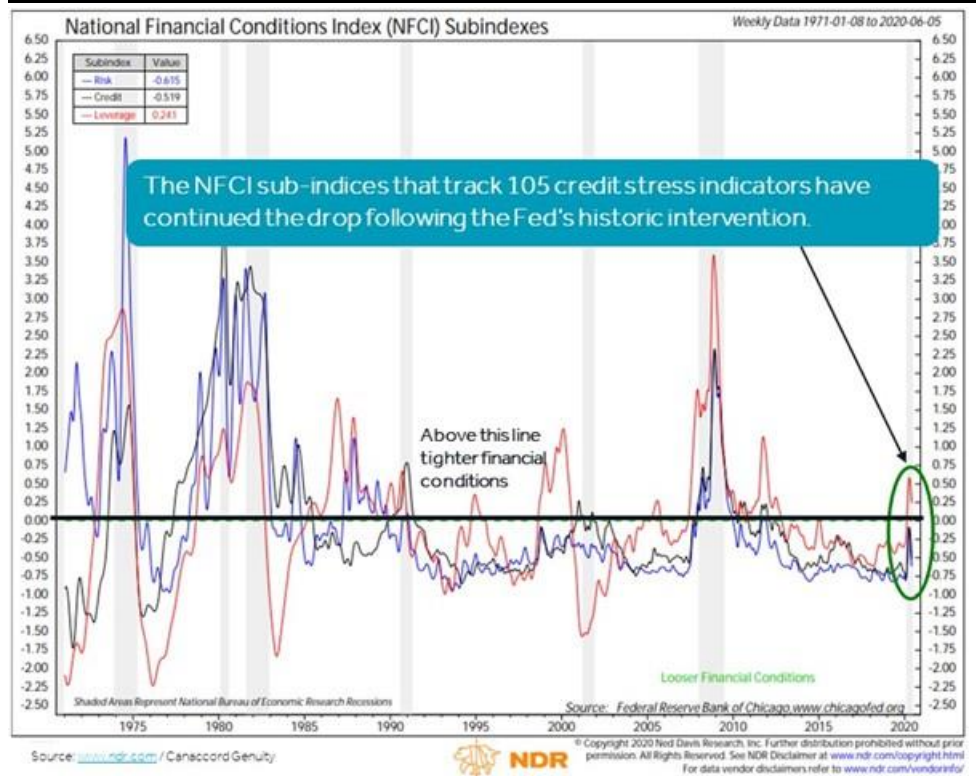


Figure 4: Unemployment unlikely to get worse

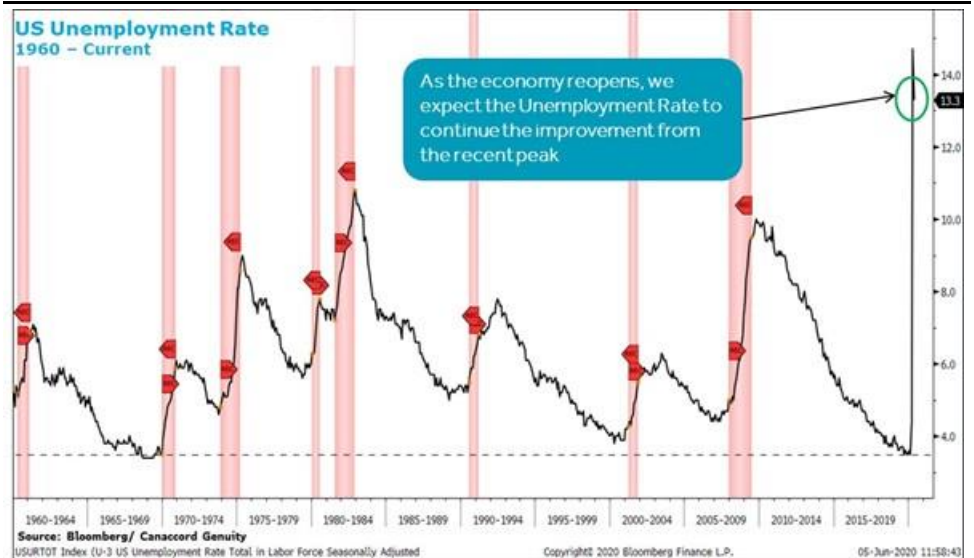
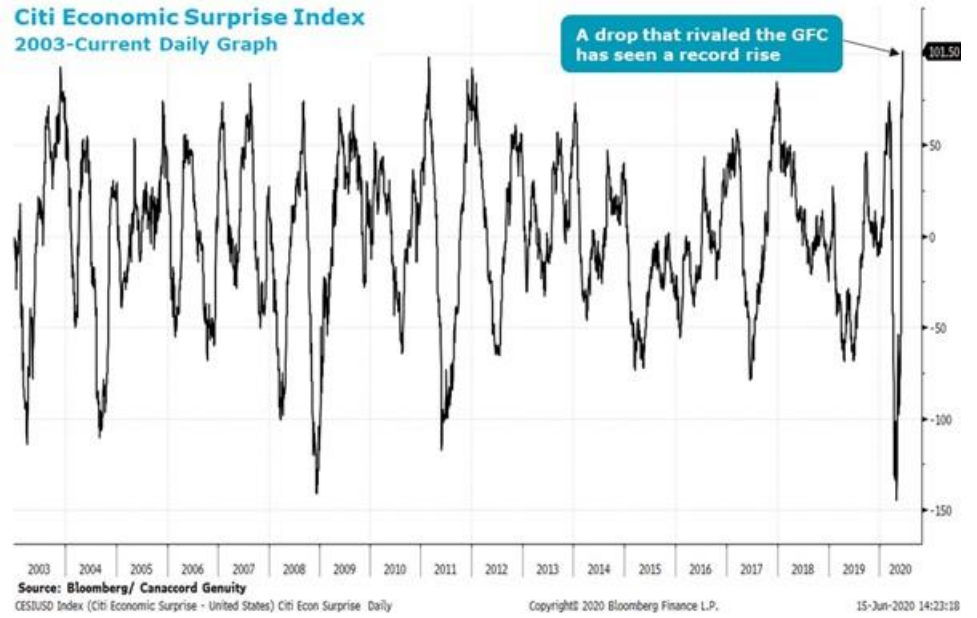


Figure 5: Record rise in the Citigroup Economic Surprise Index



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Date and time of first dissemination: June 16, 2020, 04:00 ET

Date and time of production: June 15, 2020, 18:10 ET

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Rating	Coverage Universe		IB Clients
	#	%	%
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Hold	182	22.89%	39.01%
Sell	17	2.14%	41.18%
Speculative Buy	115	14.47%	68.70%
	795*	100.0%	

\*Total includes stocks that are Under Review

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