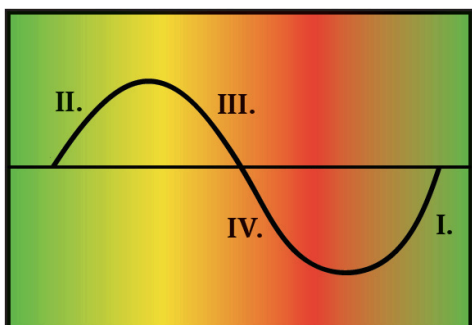


Month in Review

What a difference a month makes! After a disastrous March, the S&P 500 rose 12.68% in April on hopes that the U.S. may have reached the peak of the Covid-19 curve. There is still plenty of bad news to go around, but investors remain firmly focused on the upside. The advance accelerated mid-month when President Trump unveiled guidelines for reopening the economy, and clinical trial data for a promising coronavirus treatment was leaked. It's time to check our indicators to see how this newfound optimism has affected them. I have also provided a brief summary of my thoughts on the market going forward.

I. CREDIT CYCLE

Phase IV: Contraction



Credit conditions have improved dramatically since bottoming in March. The Fed's announcement on April 9 that they would begin to buy junk bonds and ETFs sparked the biggest rally in high yield credit in over 10 years and the greatest single-day tightening in credit spreads on record. "You can put aside your fancy chart patterns and your in-depth fundamental analyses," advises Tom McClellan, editor of the McClellan Market Report, "The Fed is now in charge of everything, and the Fed is buying." It seems only a matter of time until junk bonds overtake Treasuries in performance and a new credit cycle begins.

II. RISK LEVEL INDICATORS



US STOCKS: ELEVATED

The Risk Level for **US Stocks** remains **ELEVATED**. The economic news is grim and earnings estimates are collapsing but equity investors appear to be betting on a record short recession and a rapid return to growth. With the Fed pumping lots of money into the system and plenty of cash on the sidelines, stocks could rise even as the economy shrinks. The short-term Swing Indicators are positive so the uptrend may have further to go.

INTERNATIONAL STOCKS: HIGH

The Risk Level for **International Stocks** is **HIGH** as the world sinks deeper into recession. Europe has taken a major hit and the impact on other regions has been severe. China is further along in reopening its economy but renewed concerns over trade--at a time when overseas demand is already so weak--could overshadow any rebound in growth at home.

US HIGH QUALITY FIXED INCOME: GUARDED

The Risk Level for **US Fixed Income Quality** has risen to **GUARDED**. The Fed's unlimited bond-buying plan (i.e. open-ended QE) is having the predictable effect of suppressing Treasury yields and impelling yield-hungry investors into higher-yielding, riskier assets. Unless the pandemic worsens, it seems likely that Treasuries have peaked and better opportunities lie elsewhere.

III. LOOKING AHEAD

Try as we might, we can find no reason for optimism in the horrendous economic data being reported. Nor can we find any solace in the grim earnings forecasts that are getting worse by the week. The stakes couldn't be higher over next few weeks as businesses reopen and social distancing is relaxed. Like the citizens of Atlanta in *Gone with the Wind*, we will be waiting "hushed and grim" for any news of a resurgence of the virus. And yet, financial conditions continue to improve and the stock market keeps rising. As the experience with quantitative easing in 2008 and thereafter has shown, the Fed's goal seems to be to lift asset prices and hope the wealth effect filters down to the rest of the economy. Thanks to the Federal Reserve, rising stocks and a shrinking economy may not be mutually exclusive.

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