IT’S ALL ABOUT THE WORKERS

Last week, one of my longtime favorite sayings was yet again proven true: “the experts were surprised”. The consensus expectation by economists was for the U.S. May unemployment number to be some 19.6% of the workforce, or a further loss of some 8 million jobs over April. The actual number, as many of you may know was 13.4%; **the economy actually added 2.5 million jobs over the month**. We will leave the debate as to what qualifies one as an expert and why they are so often wrong (this applies to many fields, not just the economy) to another day. Suffice to say, this “surprise” evidence of the strength of the bounce-back in the economy **lead to very impressive stock market gains on Friday, capping an already strong week.**

The NASDAQ reclaimed it’s all-time high, the Dow rose 6.8% and the S&P 500 gained almost 5%. The most impressive weekly gains were seen in a number of lagging sectors and global markets:

- **S&P500 Financials** +12.16%. Our Canadian banks were not too shabby either with gains in the 10% range
- **Germany’s DAX** and **France’s CAC-40** jumped over 10.5%
- **Dow Jones Transportation Average** +10% - some huge gains in the beleaguered airline and cruise ship shares
- **Hong Kong** +7.88%
- **S&P 500 Real Estate** +7% - surprisingly good new home sales data
- **UK’s FTSE 100** +6.71%
- **Our own TSX** +4.35% - as well as the banks gains, strong up-moves in our energy shares, as oil rose some 10%, back to almost $40 a barrel.

Well, you get the picture – it was a very, very good week for equity investors, especially those who did not panic back in March and held on to their portfolios.

Before we start popping the champagne corks, one must be mindful there are a lot of potential minefields still out there and also a lot of sceptics that this up-move will not last. Even RBC’s US Head Strategist, Lori Calvasina, believes the recovery will battle in the months ahead and, in fact, just further reduced her earnings expectation for the S&P500 both for 2020 and 2021. Her year-end target for this major index remains at 2750 or some 13.8% below the current level of 3193. It’s important also to remember that economic statistics, such as employment numbers, are subject to revision in the weeks ahead.

I believe the biggest concern is a “second wave”. I think we will all be watching two weeks or so from now to see whether all the large protest gatherings leads to a new outbreak of Covid cases. Government funding of corporations and individuals earnings supplements also supposedly ends in the next few months. Thus, the potential for another round of layoffs in industries that remain severely impacted is a very strong possibility.

As I have written since March, I have been positive on the markets and the higher the equities rally, barring a big outbreak in new cases, the less likelihood that the lows of March are seen anytime soon.