ECONOMY

Covid-19 Surging; the Race for the Cure Crucial

THINK STRATEGICALLY:

Don't Let Fear Get in the Way of Progress

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Many of us have heard discussion about whether the United States is experiencing a "V-shaped" recovery from the current recession. Thus, we decided to examine the benchmarks to determine whether these dispel or prove this, so don't let fear get in the way of progress. As we review the data, it is easy to see a quick recovery in the stock market. Housing and personal income have yet to show any weakness since the official start of the recession. Jobs and gross domestic product (GDP), however, are still well off the early 2020 highs.

All the data we have examined indicate that American consumers are back in full force. After the sharp decline in retail sales, several months of increasing spending sent the headline-grabbing sales number back to all-time highs. Americans are still saving more than they have historically, but the relationship between personal spending and personal savings has trended back toward the historical normal.

Additionally, job market data continue to improve after the sharp decline in March; however, there is still significant ground to make up to return to pre-recession levels. Let's review the progress:

U.S. Real G.D.P. for Q3: rose 33.1 percent, compared to minus-31.4 percent last quarter and 2.6 percent last year. This is higher than the long-term average of 3.16 percent.

U.S. Unemployment Rate: fell to 7.9 percent, compared to 8.4 percent last month and 3.5 percent last year.

U.S. Initial Applications for Unemployment: fell to 751,000, or 5.06 percent from 791,000 last week.

U.S. New Single-Family Houses Sold: fell to 959,000, or 3.52 percent down from 994,000 last month.

U.S. Durable Goods New Orders: rose to 1.85 percent, compared to 0.4 percent last month.

U.S. Hires: Total nonfarm jobs rose to 5.919 million, up from 5.903 million last month.

U.S. Retail and Food Services Sales: rose to 1.91 percent, compared to 0.57 percent last month.

U.S. Consumer Price Index: rose to 260.28, up from 259.92 last month.

U.S. Personal Saving Rate: fell slightly to 14.3 percent, compared to 14.8 percent last month. This is higher than the long-term average of 8.91 percent.

U.S. Personal Consumption Expenditures: rose to $14.39 trillion, up from $13.1 trillion last quarter.

As can be seen, the U.S. economy has recovered dramatically and is firing on all cylinders. The threat now is the Covid-19 surge that has engulfed the country and Europe.

Week in Markets: The Covid Surge Crashes Markets Worldwide

World markets ended the month and the week with steep losses, as the Covid-19 surge is making headlines again causing investor sentiment to turn negative. The other issue on investor's minds is the lack of an agreement on a stimulus bill and the upcoming U.S. election. Since the March market collapse from the Covid-19 exogenous shock, this is the largest weekly and monthly downturn this far. In the eurozone, new coronavirus lockdowns have been put in effect across the majority of its countries.

The coronavirus surge is a threat that will not derail the economic recovery, but will slow it down. The rising cases affect the global economic outlook, specifically as it relates to the United States and Europe. The recent surge exemplifies the increasing need for a vaccine or therapy that proves effective in allowing the world to return to some semblance of normalcy. While challenging, we do not foresee the new lockdown orders in France and the UK as a repeat of the economic destruction that ensued in the spring.

As the U.S. economy delivered a whopping 33 percent third quarter surge in GDP. The rise is similar in numbers to the 31 percent decline in the second quarter.

It is worth noting that for the United States, a large part of its growth came mainly from consumption, which represents 70 percent of the economy. In contrast, services spending was recovering at a much slower pace. Finally, we must point out that even with this substantial GDP increase, the U.S. economy is still off 3.5 percent from its pre-Covid-19 levels.

Results for the week of Oct. 30:

The Dow Jones Industrial Average closed at 26,501.60, down 1,833.73 points, or 6.47%, for a year-to-date (YTD) return of minus-7.14%.

The Standard & Poor's 500 closed at 3,269.96, down 195.43 points, or 5.64%, for a YTD return of 1.21%.

The Nasdaq Composite Index closed at 10,911.59, down 546.69 points, or 4.77%, for a YTD return of 21.61%.

The Birling Puerto Rico Stock Index closed at 1,632.41, up 63.38 points, or 3.74%, for a YTD return of minus-19.9%.

The U.S. Treasury 10-year note closed at 0.88%, a change of 27.54%, for a YTD return of minus-0.95%.

The U.S. Treasury 2-year note closed at 0.14%, a change of 7.69%, for a YTD return of minus-1.2%.

The Final Word: Optimism is Scarce During a Perfect Storm

Major League Baseball Hall of Famer Yogi Berra famously quipped: "It's tough to make predictions, especially about the future." By the time this column publishes, Puerto Rico will have elected a new governor, and the United States will have elected or re-elected its president.

There is a dangerous combination of issues all certain to put pressure and create uncertainty in the markets, especially those that will impact the world in the long term; let's begin.

Elections: Concerns surrounding the final election outcome in Puerto Rico includes diverging components and behavioral issues; this is quite normal in an election that may end up being too close to call.

Covid-19 surge: A perfect storm on its own, as the season changes, with colder temperatures the flu arrives as well.

Global population: Will reach 8.3 billion by 2030, up from 7.8 billion in 2020, a 6.4 percent increase in only a decade.

Demand for food, energy and water: Will grow by at least 40 percent, a figure that will test the limits of most nations.

As the markets digest all these issues at play, we are in for an intense period of volatility. This is a pattern common 30 days before any general election and subsiding 30 days after the elections.

We recommend that investors do not permit that any political opinion becomes the catalyst for investment decisions. As Steve Jobs used to say, "You can't connect the dots looking forward; you can only connect the dots looking backward. So you have to trust that the dots will somehow connect in your future."

Sometimes, when we invest, no action is the preferred action, and these volatility-infused elections seem to be one of those times. However, the last four issues are situations that the world leaders must find solutions to before they turn into a real-life humanitarian crisis.

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