ROCKEFELLER
ASSET MANAGEMENT

Rockefeller Asset Management
45 Rockefeller Plaza, Floor 5
New York, NY 10111

Monthly Market Review

June 1, 2020

Jimmy C. Chang, CFA

Chief Investment Strategist
Senior Portfolio Manager
Rockefeller Capital Management
(212) 549-5218 | jchang@rockco.com

EYE OF THE STORM

Depression shocks stunted; recession forces linger on

The Wall Street adage "sell in May and go away" was not heeded at all this year. The only thing that went away was perhaps fear as equities worldwide rallied on the news that a SARS-CoV-2 vaccine had a successful phase one trial, and the optimism for a strong post-lockdown economic rebound. Investors were also heartened by the European Commission's unveiling of a €750 billion recovery fund – €500 billion in grants and €250 billion in loans – to underwrite Europe's recovery. It's a historic move as Germany had heretofore opposed the idea of jointly-issued debt. These developments propelled the S&P 500 Index above the psychologically important 3,000 level, and shifted market leadership from Big Tech to beaten down value stocks.

The rally buoyed the commodities complex with crude oil leading the pack– the WTI crude oil price surged 86% off a low base. Oil producers were quick to slash production while post-lockdown demand surged. The risk-on mood also drove up beleaguered emerging market currencies such as the Brazilian real and the Chilean peso despite South America's newfound status as the epicenter of the COVID-19 outbreak. The Treasury Department issued a 20-year bond for the first time since 1986 to help fund the massive deficit. Long bond yields have started to creep up of late, prompting speculation of yield curve control by the Fed. Precious metals held their ground in spite of the risk-on mood, with silver surging 19%.

Two stock markets – Hong Kong and China – were conspicuously left out of the global rally. Beijing announced a plan to impose a new national security law for Hong Kong by September. Liberal democracies around the world condemned the move as a violation of Hong Kong's 50-year autonomy that Beijing had agreed to in 1997. It prompted the U.S. government to declare that Hong Kong is no longer autonomous from China, and to initiate the process to remove the territory's preferential trade status with the U.S. These are disconcerting developments that in normal times would have roiled global equities. While fear among equity investors may have been drowned out by excess liquidity, the currency market has reacted by weakening offshore renminbi to levels last seen during the height of the trade war tension in 2019. These are just the warm-up acts for a long hot summer of geopolitical brinkmanship and miscalculations before the critical November elections.

Rockefeller Asset Management
45 Rockefeller Plaza, Floor 5
New York, NY 10111

BIZET'S BLUES

Alexandre César Léopold Bizet, aka Georges, was expected to achieve great things in music. His precocity got him accepted into the Conservatoire de Paris at the tender age of nine. He flourished as a composer and a pianist, and later won the prestigious Prix de Rome scholarship to study music in Rome. After returning to Paris at age 22, Georges gradually realized that the numerous awards and recognitions he had earned did not assure him of a successful professional career. He became a struggling musician doing odd jobs from teaching piano to arranging others' compositions. Georges' prospects were so poor that his future wife's family had initially rejected his marriage proposal on the ground that he was "penniless, left-wing, anti-religious and Bohemian."

In 1872, at 34 years of age, Georges thought he had finally gotten a big break when Opéra-Comique, one of Paris' two state-funded opera houses, commissioned him to compose an opera. The project was held up initially as the opera house's management thought his proposed plot based on an 1845 novel was too risqué. Georges persevered and moved the project into rehearsals by October 1874. It was a complex piece of work – the orchestra found some parts unplayable, and chorus members complained that some pieces were too hard to sing and were unhappy that they had to act out smoking and fighting on stage. These issues were finally resolved, and the opening night was set for March 3rd, 1875.

The premier was attended by luminaries and some of Paris' leading musical figures. It had an auspicious start with the opening act garnering enthusiastic applause and numerous curtain calls. However, the applause began to diminish during the second act, and by the fourth and final act, the reception turned cold. The reviews were mostly negative, as many were critical of the themes of infidelity and murder; one called it "the very incarnation of vice."

Depressed by the failure of his supposed masterpiece, Georges soon fell ill. On May 31st, having felt better, he took a stroll with his wife and a friend along the River Seine. Foolishly, by the urging of his friend's dare, he jumped into the river for a swim, which made him ill again. Three days later, on his sixth wedding anniversary, Georges passed away at age 36. The news of his sudden death stunned the music world and 4000 people attended his funeral.

Shortly before his death, Georges had signed a contract with the Vienna Court Opera to stage his beloved opera. The Vienna production opened four months after Georges' death and was a huge success. It won praise from music icons Richard Wagner and Johannes Brahms, the latter reportedly saw it 20 times. The opera then became a global sensation with performances throughout major cities like London, New York, and St. Petersburg before its triumphant return to Opéra-Comique in 1883. Tchaikovsky wrote that the opera was "a masterpiece in every sense of the word…one of those rare creations which expresses the efforts of the whole musical epoch."

Today, 145 years after its premier, Bizet's *Carmen* remains one of the greatest and most performed operas of all time. Its arias like the sultry *Habanera* and the masculine *Toreador Song* are hummed worldwide like pop songs. Poor Bizet finally got recognition as one of the most important French Romantic composers, but his untimely death robbed him of the enjoyment of fame and fortune. Sadly, he was not even allowed to rest in peace for eternity; in 2006, a bronze bust of Bizet that adorned his grave at Paris' Père-Lachaise cemetery was stolen by tomb raiders.

Equity Markets Indices[1]	4/30/20 Price	5/29/20 Price	MTD Change	YTD Change
MSCI All Country World	489	509	4.1%	-9.9%
S&P 500	2912	3044	4.5%	-5.8%
MSCI EAFE	1658	1725	4.1%	-15.3%
Russell 2000®[2]	1311	1394	6.4%	-16.4%
NASDAQ	8890	9490	6.8%	5.8%
TOPIX	1464	1564	6.8%	-9.2%
KOSPI	1948	2030	4.2%	-7.6%
Emerging Markets	925	930	0.6%	-16.5%
Fixed Income				
2-Year US Treasury Note	0.20%	0.16%	-3	-141
10-Year US Treasury Note	0.64%	0.65%	1	-127
BarCap US Agg Corp Sprd	2.02%	1.74%	-28	81
BarCap US Corp HY Sprd	7.44%	6.37%	-107	301
Currencies				
Chinese Renminbi (CNY/$)	7.06	7.14	1.0%	2.5%
Brazilian Real (Real/$)	5.49	5.34	-2.7%	32.4%
British Pound ($/GBP)	1.26	1.23	2.0%	7.3%
Euro ($/Euro)	1.10	1.11	-1.4%	1.0%
Japanese Yen (Yen/$)	107.18	107.83	0.6%	-0.7%
Korean Won (KRW/$)	1218.50	1238.35	1.6%	7.1%
U.S. Dollar Index (DXY)	99.02	98.34	-0.7%	2.0%
Commodities				
Gold	1687	1730	2.6%	14.0%
Oil	18.8	35.5	88.4%	-41.9%
Natural Gas, Henry Hub	1.95	1.85	-5.1%	-15.5%
Copper (cents/lb)	235	243	3.0%	-13.3%
CRB Index	117	132	12.8%	-28.8%
Baltic Dry Index	635	504	-20.6%	-53.8%

Rockefeller Asset Management
45 Rockefeller Plaza, Floor 5
New York, NY 10111

LOCKDOWN PASTIME

These are dark days for opera companies, and for that matter, practically all performing arts. Broadway has gone dark for the longest period in its history. Opéra-Comique has cancelled all performances for the current season, though its website is still accepting booking for its 2020-21 season, set to open with Carmen on September 25th. That looks optimistic as all venues that involve mass gatherings are likely to remain closed until we have either an effective treatment or vaccine for COVID-19. Indeed, the California State University, with 23 campuses and 484,000 students, plans to cancel most in-person classes for the fall semester. The University of Cambridge went a step further by cancelling all in-person lectures for the entire 2020-21 school year. The last time this 811-year-old institution closed the campus over health concerns may have been during the bubonic plague in 1665. That temporary closure sent Isaac Newtown home and afforded him the time and inspiration (apple falling on his head) to develop both the theory of gravity and calculus. Perhaps some good will come out of this round of closures with some genius working from home.

It turns out that the unprecedented lockdown has driven many into stock trading. The Financial Times reported that gamblers who cannot wager on professional sports have flocked to the stock market to get their fix. Data aggregation and analytics company Envestnet Yodlee found that stock trading was among the most common uses for the government stimulus checks in practically every income bracket. Robinhood Markets, a stock app favored by millennials, saw daily trades up 300% from a year ago in March, and over half of its customers are first time investors. TD Ameritrade Holding saw visits to the brokerage's "Education Center" reaching an all-time-high in April, up 280% year on year. Schwab reported "monumental volumes" in new account openings in the March quarter. It appears that stock trading has become a national lockdown pastime.

CALM IN THE EYE OF THE STORM

The strong equity rally over the last ten weeks may have made these newly minted traders feel like investment geniuses while confounding many seasoned investors. How is it possible that the worst economic crisis since the Great Depression has resulted in a bear market lasting just 23 trading sessions (34% drawdown from February 20th to March 23rd)? Using the common 20% threshold to label the stock market, the S&P 500 Index is now in the midst of a new bull market, having risen 36% since the March 23rd trough. We suspect that the current environment may turn out to be the eye of the storm – a serene setting with clear skies and light winds, only to be followed by towering thunderstorms and gusty winds in due time.

In spite of dire economic statistics such as 40 million Americans having lost their jobs and the record collapse in retail sales, many households have yet to feel the brunt of the economic collapse thanks to generous government bailout checks. A study at the University of Chicago found that, for 68% of the unemployed workers, the combination of standard unemployment insurance and the extra $600 of weekly Federal Pandemic Unemployment Compensation exceeds their lost earnings. The median income replacement rate (benefits to lost earnings) is 134%. For those in the lower end of the income distribution, the benefit ratio is even higher – the 25th percentile, which had a prior weekly wage of $445, is receiving $831 a week in benefit, or 187% of the prior wage. On top of it, for many American households, there are the so-called Coronavirus stimulus checks of $1,200 per adult and $500 per child under the age of 17. For a family of four earning up to $140,000 a year, there is a one-time stimulus check of $3,400. Some households may further increase their cash flow as a result of various forbearance programs to defer payments – credit cards, mortgages, utilities, student loans, rents, etc. American auto insurers are also offering refunds of 15% to 30% of auto premiums for varying number of months due to less insurance claims.

On the business side, the $669 billion Paycheck Protection Program (PPP) loans have kept many small businesses afloat. Most of this money has been distributed between mid-April and mid-May, and many expect much of the loans to be forgiven. Hospitals and various health care providers have already received more than $70 billion of grants from the Department of Health and Human Services. Thanks to the Fed's unlimited purchase of assets, including junk bonds, the red-hot corporate bond market has enabled corporate America to raise money at a record pace to shore up liquidity. Year-to-date through May, more than $1 trillion of corporate bonds have been issued, which is nearly as much as all of 2019's issuance.

Optimism has also been buoyed by declining COVID-19 infection rates and death counts in the U.S. Indeed, *now* may be the safest time until the population gets vaccinated, as lockdowns and social distancing have substantially brought down new cases, and the warmer weather may help reduce transmission. Lockdown fatigue has created an urge to splurge, which should lead to a V-shaped economic rebound near term. Furthermore, election year politics virtually guarantees that there will be more handouts from Washington. House Democrats have passed an additional $3 trillion of stimulus. While many Republicans have balked at this huge bill, we expect President Trump to work out a compromise for another round of stimulus checks. The pandemic has gotten rid of any lingering pretense at fiscal discipline; it's helicopter money time!

ONLY THE PARANOID SURVIVE

While the stock market basks in the complacency of a liquidity-fueled rebound, one should not equate optimism

Rockefeller Asset Management
45 Rockefeller Plaza, Floor 5
New York, NY 10111

with reality. Despite V-shaped recoveries in economic activity, the absolute levels are far from normal. For example, the daily air passenger count in the U.S. has surged 289% from the nadir in mid-April to as high as 345,000 in late May, prompting airlines to add new flights. However, it is still down 85% from year ago, and it may take years to get back to the pre-COVID-19 levels. Amtrak plans to cut up to 20% of its workforce as its ridership in 2021 is projected to rise to just half of what it was in 2019. Restaurants and retail shops across the country are re-opening for business, but OpenTable forecasts that 25% of U.S. restaurants will close for good, and the pandemic will accelerate the demise of many retailers. To wit, well-known brands such as Neiman Marcus, JC Penney, and J.Crew have filed for bankruptcy. Most businesses will continue to operate in a belt-tightening mode rather than making new investments in the coming quarters. As a result, the Congressional Budget Office projects that the U.S. will likely exit 2020 with an unemployment rate of 11.5%, which is still above the *peak* unemployment rate of 10% during the Great Financial Crisis.

At some point in the months ahead, we believe the post-lockdown euphoria will give way to the realization that while aggressive bailout efforts may have stunted the impact of an economic depression, we are still left with a deep recession. The insolvency wave will continue to crest; year-to-date, there were already 98 bankruptcies filed by companies with more than $50 million of liabilities, which is the highest since the Great Recession. Collapsing tax revenues will force state and local governments to resort to belt-tightening. Depending on the rates of new infection and hospitalization, the V-shaped economic bounce off lockdowns may morph into a stagnant morass as a part of the population continues to refrain from certain activities until they get vaccinated. As the election season gets underway, investors will no longer be able to ignore policy risks for 2021 and beyond, not to mention the rising tension with China.

In the final analysis, COVID-19 will remain a menace for the foreseeable future and we have accepted it as endemic. This is a stark contrast with countries like South Korea, New Zealand, and Taiwan where citizens and governments collaborate on measures to achieve the goal of *zero* new domestic cases. We, on the other hand, do not appear to have a coherent strategy to deal with the virus. I was especially alarmed by the viral videos of hundreds of revelers crowding into a Memorial Day weekend pool party at Lake of the Ozarks, Missouri. The cavalier behavior increases the risk of infection even before the dreaded potential second wave in the autumn. It's unfortunate that, to some, a simple act of wearing a face mask in public has become a divisive red-blue issue. The much-ballyhooed large-scale test-and-trace programs also appeared to have stalled as the U.S. CDC just cautioned that COVID-19 antibody tests could be wrong *half* of the time. I may be too paranoid in sensing the parallel between the rush to re-open the economy haphazardly and Bizet's ill-fated attempt to take a swim in the River Seine before he was fully convalesced. However, I am also reminded of business legend Andrew Grove's quote, "*Complacency breeds failure; only the paranoid survive.*"

For more information on Rockefeller Capital Management:

rockco.com

1 Index pricing information does not reflect dividend income, withholding taxes, commissions, or fees that would be incurred by an investor pursuing the index return.

2 The Russell 2000® Index is a registered trademark of the Russell Investment Group. Russell Investment Group is the owner of the copyright relating to this index and is the source of its performance value.