



CORBETT ROAD



MACRO MUSINGS

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CHARTING THE COURSE 2020

SUMMARY

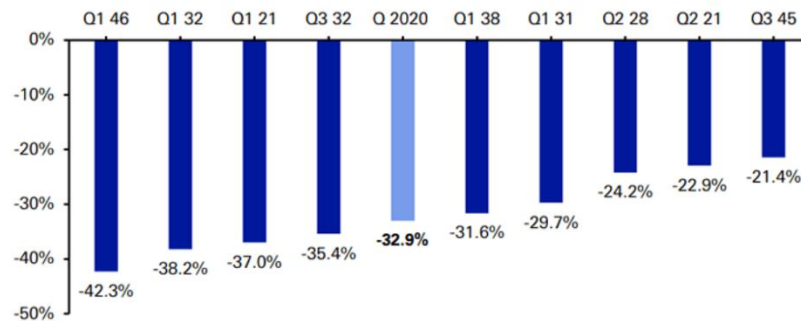
- Every August, we “Chart the Course” by looking at key charts illustrating important trends in the economy and markets. We find that the data shown in many of these charts is consistent with what we see in MACROCAST™. We hope you enjoy these, and we will resume publication of our regular, monthly Macro Musings at the end of September.



CHARTING THE COURSE: THE ECONOMY

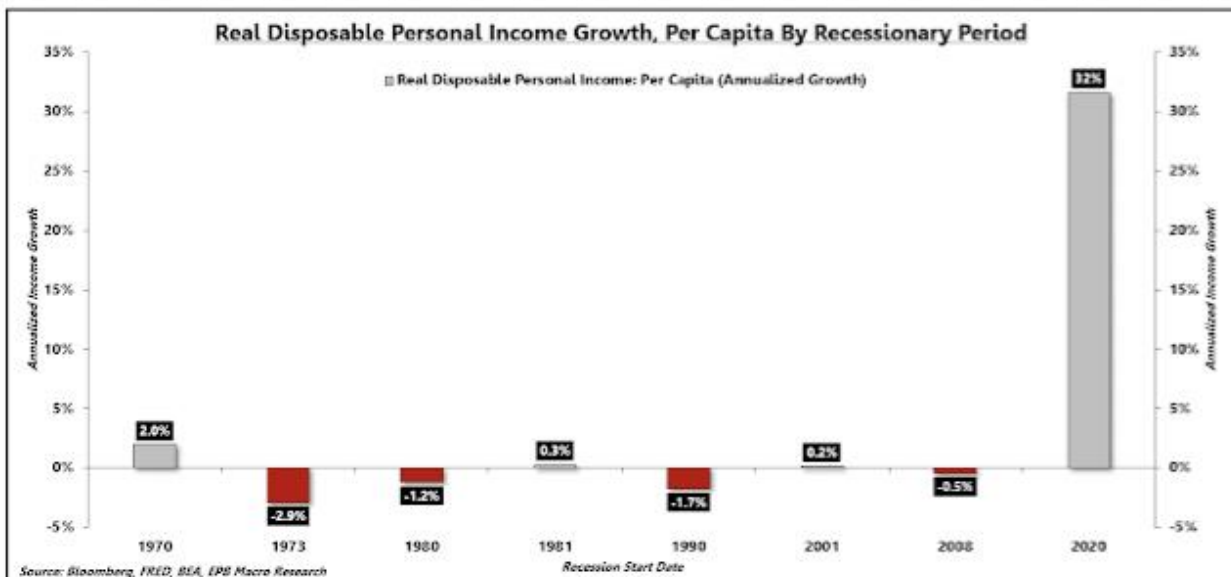
Second quarter GDP print was the 5th worst in the last hundred years. Thanks to lockdowns across most of the country, GDP collapsed in the quarter. However, the 33% decline is misleading because it assumes weakness will persist for the entire year, and GDP is expected to rebound in the third quarter.

Top 10 worst quarters for Real US GDP over the last century



Source : Deutsche Bank, GFD, Bloomberg Finance LP

But personal income grew?? Recessions almost never lead to higher incomes; when incomes do increase, it is by a marginal amount. This recession was truly different, with massive gains in income driven by the aggressive CARES Act passed at the end of March. Again, the annualized rate is a bit misleading because the growth won't be sustained throughout the year; nonetheless, it was a large increase.

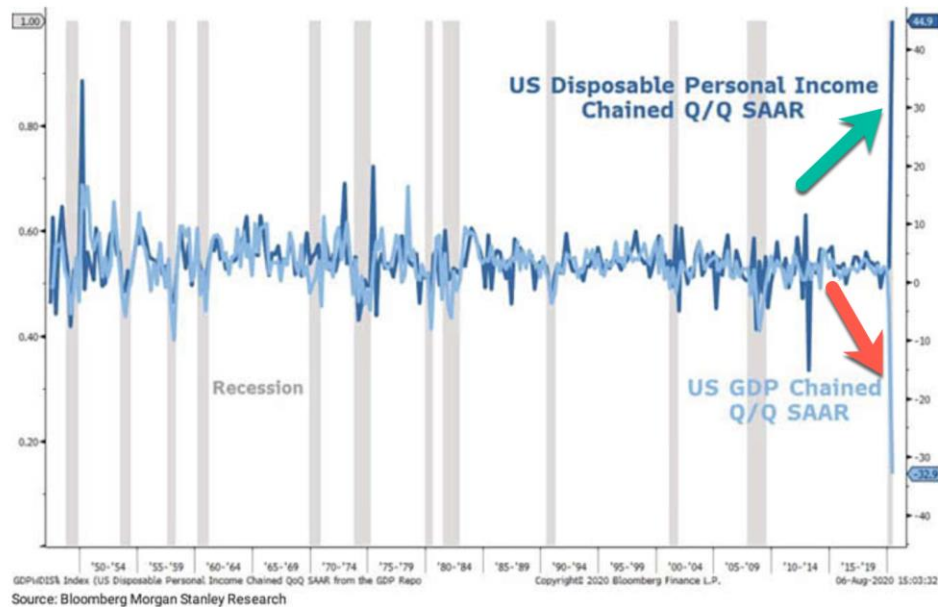


Source: Bloomberg, FRED, BEA, EPB Macro Research

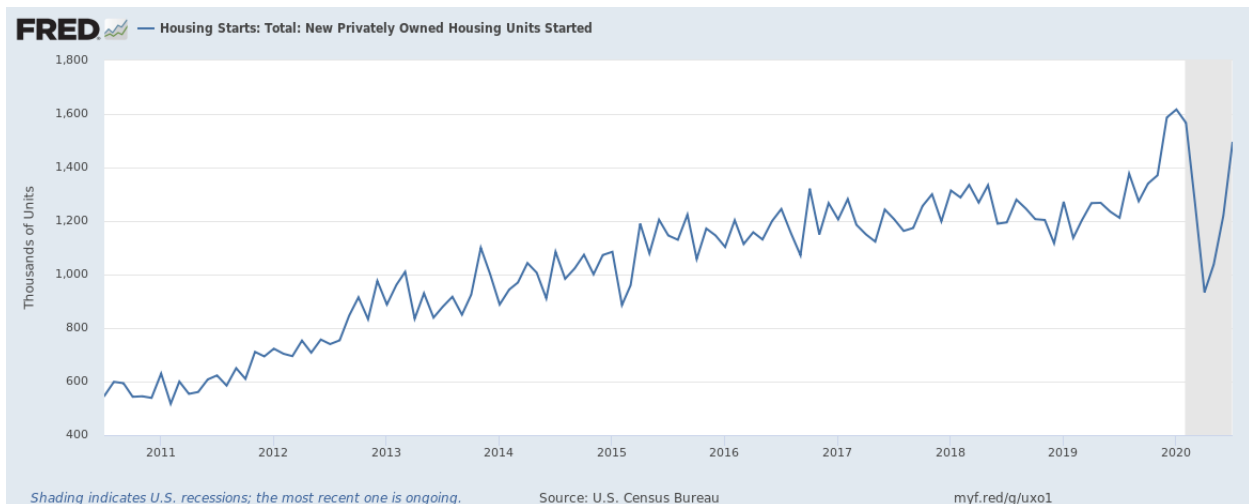


The combination of the above statistics was extraordinary. At no point in history did income grow as much as it did while GDP sank as much as it did. The word *unprecedented* gets thrown around a lot these days, but this event genuinely was.

Exhibit 4: Personal Disposable Income growth has never been higher in a quarter when GDP growth has never been more negative. Strange times indeed.



Housing Starts have rebounded. Housing has seen a “V”-shaped recovery, thanks to record low mortgage rates and the pandemic-driven desire to relocate away from the big cities.



Retail Sales are also experiencing a “V”-shaped recovery. The strong rebound in both housing and retail sales suggests this recession could be one of the shortest on record.



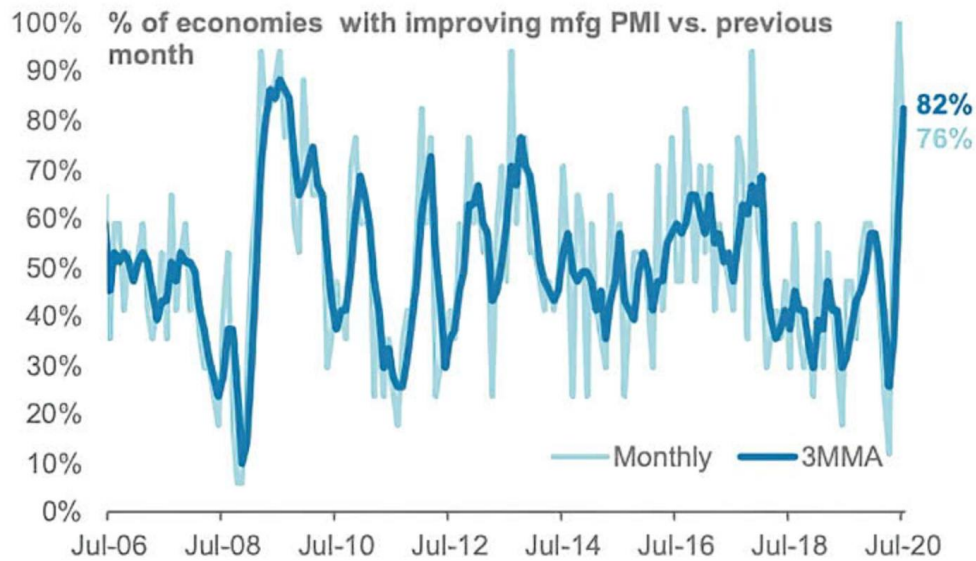
US (real) retail sales during 7 recessions since 1970



Source: Pictet Asset Management, CEIC, Datastream

It's not just a US story. Manufacturing surveys show most countries are seeing improvements in economic activity, similar to trends in 2009.

Improvement in headline PMIs..



Source: Markit, Haver Analytics, IMF, national sources, Morgan Stanley Research.

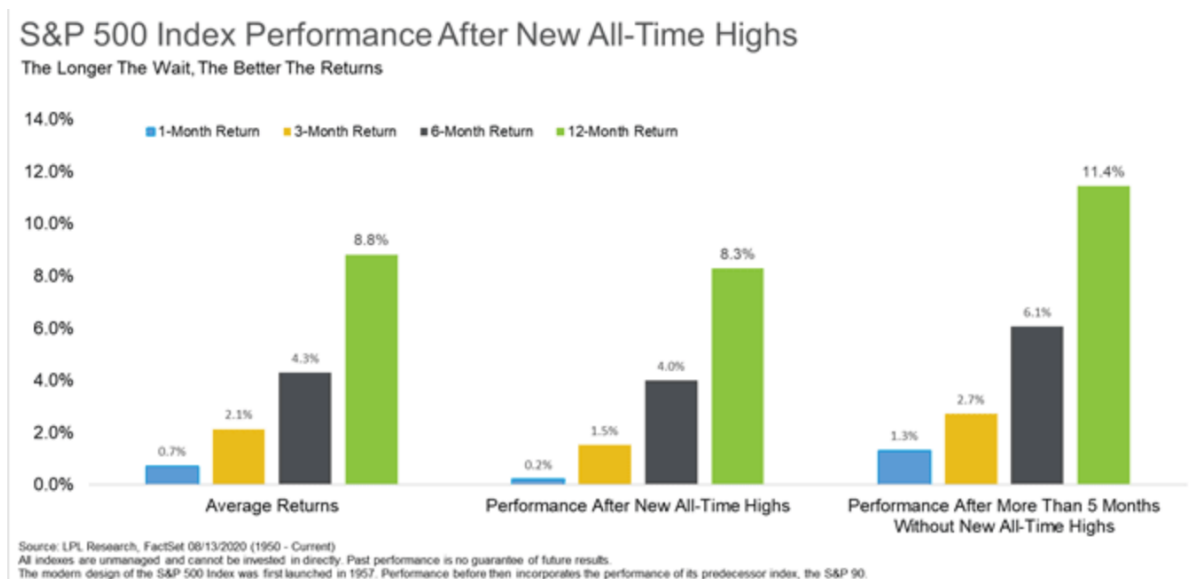


CHARTING THE COURSE: MARKET PERFORMANCE

The S&P 500 has fully recovered from the coronavirus selloff. Thanks to an improving global economy, record stimulus, and supportive central banks around the world, the market recovered in record time.



All time highs are nothing to fear. Historically, the market's performance after all time highs is better than average if it has been more than 5 months since the last one, as is the case today.



CHARTING THE COURSE: FUND FLOWS



Investors are pulling money out of cash and money market accounts. Assets in money market accounts peaked over 10 weeks ago. This type of reversal has historically been bullish for stocks, up to one year later (data from SentimentTrader).

S&P 500 after retail and institutional money markets both peaked > 10 weeks ago (1980-2020)

Signals	1 Week	2 Weeks	1 Month	2 Months	3 Months	6 Months	1 Year
Median	0.9	0.3	1.7	2.1	5.2	9.7	15.7
% Positive	56%	78%	67%	89%	100%	100%	89%
Risk	-0.3	-0.3	-0.9	-2.3	-2.3	-3.4	-3.4
Reward	0.9	1.3	3.2	3.8	5.2	14.8	21.2
Z-Score	0.5	0.0	0.6	0.3	1.6	1.7	1.4

© SENTIMENTRADER Numbers are % return after signal; Risk = avg max loss; Reward = avg max gain; Z-Score +/- 2 suggests significance.



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