



MORNING BRIEFING

June 10, 2020

The Shortest Recession on Record

Check out the accompanying [chart collection](#).

(1) Free Kindle book on the Fed. (2) Meet the Dating Committee. (3) The longest economic expansion followed by the shortest recession on record. (4) Did the economy bottom in May or in June? (5) Tracing out a swoosh. (6) Tracking mobility as the economy reopens. (7) Bull market broadening in recent days. (8) Remarkable rebound for both LargeCaps and SMidCaps. (9) Value doing some catching up to Growth. (10) Growth's natural advantage is growth.

Free Fed. The Kindle version of my book [Fed Watching for Fun & Profit](#) is available for free today and tomorrow. One five-star reviewer noted: "Dr Ed does it again! A super ride through all of the past Fed chairmen, stopping along the way to point out what is important for investors to watch."

US Economy I: The Dating Committee. Yesterday, CNN Business [reported](#): "The longest economic expansion in American history is officially over. The National Bureau of Economic Research [NBER] declared Monday that the recession began in February. The economy collapsed so rapidly that NBER wasted no time in announcing a recession, a stark contrast to previous downturns when the body took upwards of a year to declare what most people already knew. This was the fastest that NBER has declared any recession since the group began formal announcements in 1979."

Hey, not so fast! Consider the following:

(1) *Recession started in March, not February.* The NBER's [press release](#) is titled "Determination of the February 2020 Peak in US Economic Activity." In other words, technically speaking, the recession started in March, not February. The release clearly stated: "The committee has determined that a peak in monthly economic activity occurred in the U.S. economy in February 2020. The peak marks the end of the expansion that began in June 2009 and the beginning of a recession. The expansion lasted 128 months, the longest in the history

of U.S. business cycles dating back to 1854. The previous record was held by the business expansion that lasted for 120 months from March 1991 to March 2001.”

The NBER’s press release also stated that on a quarterly basis, the peak was Q4-2019. That makes sense since real GDP rose 2.1% (saar) during that quarter to a record high of \$19.2 trillion. It then fell 5.0% during Q1-2020. It plunged during Q2-2020 after state governors signed executive orders imposing social-distancing restrictions and locking down their economies during the second half of March through at least mid-May.

The Atlanta Fed’s [GDPNow](#) tracking model estimated that real GDP plunged 48.5% (saar) during the current quarter based on data available through June 9. This meets the popular definition of a recession, i.e., when real GDP falls during at least two consecutive quarters.

(2) *Shortest recession on record.* Debbie and I reckon that when the NBER picks the trough in the current recession, it will have been during June. A four-month recession would be the shortest on record. Previously, the shortest was the six-month downturn from January 1980 through July 1980. (See our [US Business Cycle Expansions and Contractions: 1854-Present](#).) But an atypical duration might be expected of a one-of-a-kind downturn like this one, caused by executive orders to shut down the economy to keep us from breathing on each other.

On a quarterly basis, we are estimating that real GDP fell 40% during Q2 and will rebound 20% during Q3 and 5% during Q4 ([Fig. 1](#)). Beyond that, we expect the quarterly pattern could look like the Nike logo’s swoosh, with low single-digit growth rates. We don’t expect that real GDP will recover to its Q4-2019 record high until late 2022.

(3) *Coincident indicators could bottom in May.* A map of when states are ending their lockdowns, along with updates for specific states, is available on the [website](#) of *USA TODAY*. Yesterday, it showed that restrictions have been lifted in Alaska and Wisconsin and eased everywhere else in the US. For example, here is the June 4 update for New Jersey:

“Most nonessential businesses will reopen June 15 with 50% capacity restrictions when the state moves into phase two, Gov. Phil Murphy said June 4. Murphy signed an executive order May 19 allowing in-person sales at car, motorcycle and boat dealerships, along with bicycle shops, on May 20. New Jersey allowed retail stores to reopen for curbside pickup service only and nonessential construction to resume on May 18. Murphy said mall interiors will remain

closed, but stores inside malls can open for items that can be delivered to customers waiting in cars outside.”

In the next section, we review the *USA TODAY* website's latest reports on mobility. They suggest that the great reopening has started. Arguably, the Index of Coincident Economic (CEI) might actually have bottomed during May, resulting in a three-month recession! Debbie and I track the CEI as a useful proxy for the quarterly real GDP series ([Fig. 2](#)). This index includes four coincident economic indicators: employees on nonagricultural payrolls, real personal income less transfer payments, industrial production, and real manufacturing & trade sales. All four might have bottomed in May ([Fig. 3](#)).

The CEI shows that the average time it took for the economy to recover to its previous peak during the past six economic cycles was 33 months, ranging between 19 months (in the early 1970s) and 68 months (following the Great Recession) ([Fig. 4](#)). We think it could take 32 months to get back to the February peak in this series, i.e., by October 2022. So the initial V-shaped rebound eventually could turn out to be a swoosh. This outlook allows for the possibility of a second wave of COVID-19 infections, though not as bad as the first wave and without triggering another round of lockdowns.

US Economy II: Tracking Mobility. The *USA TODAY* website cited above reports: “Across the United States, governors are rolling out a patchwork of constantly evolving plans to relax social distancing restrictions. At the height of restrictions in late March and early April, more than 310 million Americans were under directives ranging from ‘shelter in place’ to ‘stay at home.’ The orders varied by state, county and even city. Health officials warn that easing restrictions too soon could bring new outbreaks, but many states have forged ahead.”

Here are *USA TODAY*'s latest updates for caseloads and mobility for selected states at the start of June:

(1) *Texas. Stay-at-home order:* Started on April 2, 2020, ended on April 30, 2020.

Caseload: The number of confirmed new cases is growing, with 10,756 for the seven days ending June 7 compared to 8,791 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 8.6% less than in February, before the pandemic, data from SafeGraph show.

(2) *Pennsylvania*. **Stay-at-home order:** Started on April 1, 2020, ended on May 8, 2020.

Caseload: The number of confirmed new cases is shrinking, with 3,779 for the seven days ending June 7 compared to 4,566 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 12.6% less than in February.

(3) *New Jersey*. **Stay-at-home order:** Started on March 21, 2020. **Caseload:** The number of confirmed new cases is shrinking, with 3,719 for the seven days ending June 7 compared to 6,291 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 21.3% less than in February.

(4) *Ohio*. **Stay-at-home order:** Started on March 23, 2020, ended on May 30, 2020.

Caseload: The number of confirmed new cases is shrinking, with 2,963 for the seven days ending June 7 compared to 3,602 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 6.0% less than in February.

(5) *New York*. **Stay-at-home order:** Started on March 22, 2020, ended on May 15, 2020.

Caseload: The number of confirmed new cases is shrinking, with 7,327 for the seven days ending June 7 compared to 9,255 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 19.6% less than in February.

(6) *Illinois*. **Stay-at-home order:** Started on March 21, 2020, ended on May 30, 2020.

Caseload: The number of confirmed new cases is shrinking, with 7,497 for the seven days ending June 7 compared to 9,956 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 11.6% less than in February.

(7) *Massachusetts*. **Stay-at-home order:** Started on April 24, 2020, ended on May 18, 2020.

Caseload: The number of confirmed new cases is growing, with 6,471 for the seven days ending June 7 compared to 4,290 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 17.8% less than in February.

(8) *Florida*. **Stay-at-home order:** Started on March 20, 2020, ended on April 30, 2020.

Caseload: The number of confirmed new cases is growing, with 7,775 for the seven days ending June 7 compared to 5,296 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 10.4% less than in February.

(9) *California. Stay-at-home order:* Started on March 19, 2020. **Caseload:** The number of confirmed new cases is growing, with 18,664 for the seven days ending June 7 compared to 17,931 the seven days prior. **Mobility:** For the seven days ending June 5, the share of residents leaving their homes was 18.5% less than in February.

We will be tracking the mobility data and keep you posted on a weekly basis.

Strategy: Styles Update. With the US stock market in an epic meltup from its March 23 low, all of the major stock market indexes have scored gains, but most remain down for the year. Among them, the S&P 500 turned a hair positive for year on Monday ([Fig. 5](#)). Growth stocks, particularly the FAANGMs (Facebook, Amazon, Apple, Netflix, Google's parent Alphabet, and Microsoft), have done well, surging quickly out of the gate. But their relative outperformance may be fading, as their valuations have soared and the rally is beginning to broaden. That's not a surprise. As the US economy begins to reopen, investors are snapping up bargains and gravitating away from the stay-at-home plays. Consider the following related developments:

(1) *S&P 500/400/600 equal-weighted vs market-cap-weighted.* During the worst of the decline, investors preferred larger companies that were more insulated from the impact of the COVID-19 economic shutdown ([Fig. 6](#)). The ratio of the S&P 500 equal-weighted to the market-cap-weighted indexes bottomed at an 11-year low on May 13 and has risen 9.7% through June 8. That rebound is happening much quicker than the 2009 experience when the ratio bottomed on March 6, 2009 and was up just 3.3% over a similar time period. Back then, the ratio soared over the next two years, suggesting that the equal-weighted index might continue to outperform the market-weighted one again this time around. The current rebound is also favoring the equal-weighted indexes for MidCap and SmallCap.

(2) *S&P LargeCaps vs SMidCaps.* While the S&P 500 returned to a slightly positive ytd gain on Monday, the SMidCaps were still down 5.7% and 10.1%. At its worst, the S&P 500 was down 34.6% from its record high on February 19 to March 23, less than the 41.9% and 41.4% declines for MidCap and SmallCap ([Fig. 7](#)).

LargeCap's impressive 44.5% gain since the March 23 bottom is the fastest since the early 1930s. However, the relatively newer MidCap (data since 1991) and SmallCap (since 1993) indexes have astounded investors, with record-high gains of 59.7% and 54.1%, respectively since March 23.

(3) *S&P Growth vs Value*. Across the S&P 500/400/600 indexes, Value is clearly lagging Growth on a ytd basis. LargeCap's Growth index is up 7.6% ytd through Monday's close, well ahead of the 8.4% decline for Value. Similarly, MidCap Growth's 0.3% decline compares to an 11.6% drop for Value, and SmallCap Growth is down 6.3% while Value has dropped 14.2%.

LargeCap's Growth price index relative to the Value index has been on a long and mostly steady uptrend since 2007, but spiked in 2020 to a toppy looking record high on May 22 ([Fig. 8](#)). The ratio rose from a low of 1.50 in December to 1.78 on March 23, then shot vertically to a record-high 1.90 on May 20. It was down to 1.78 on Monday as the rally broadened to include Value stocks. The top looks eerily similar to the spike that began in 2000, right before a decline as the tech bubble deflated.

LargeCap's Growth and Value indexes have performed similarly since March 23, rising 44.4% and 44.6%, but the Value indexes for MidCap and SmallCap have beaten their Growth counterparts. Will Value continue to outperform? Quite possibly over the near term, though history favors the outperformance of the Growth indexes. During the prior bull market from March 9, 2009 to February 19, 2020, Growth ended up the clear winner in all three market-cap indexes: SmallCap Growth rose 536.8% versus a 390.5% gain for Value, MidCap Growth was up 465.8% versus a 368.9% rise for Value, and LargeCap Growth rose 482.5% versus a 320.9% gain for its Value counterpart.

CALENDARS

US: **Wed:** Headline & Core CPI 0.2%/1.3% y/y, MBA Mortgage Applications, Monthly Budget Statement -\$650b, EIA Crude Oil Stocks, Fed Rate Decision 0.13% (0.00% to 0.25%), FOMC Economic Projections. **Thurs:** Initial & Continuous Claims 1.55m/20.0m, Headline & Core CPI -1.2%/0.4% y/y, EIA Natural Gas Storage. (DailyFX estimates)

Global: **Wed:** France Industrial Production -20.0%, Guindos Schnabel. **Thurs:** Italy Industrial Production -24.0% m/m/-40.0% y/y, Japan Industrial Production -9.1m/m/-14.4% y/y. (DailyFX estimates)

STRATEGY INDICATORS

S&P 500 Growth vs Value ([link](#)): The S&P 500 Growth price index leads ytd through Monday's close with a gain of 7.6% versus an 8.4% decline for Value. Since their low for the year on 3/23, Growth's 44.4% gain is just about even with the 44.6% rise for Value. Growth is

now just 1.0% below its 2/19 record high, and Value is now out of a correction at 9.4% below its 1/17 record high. Looking at the fundamentals, Growth is expected to deliver higher revenue growth (STRG) and earnings growth (STEG) than Value over the next 12 months. Specifically, 4.6% STRG and 4.3% STEG are projected for Growth, respectively, versus -1.3% and -9.6% for Value. Through Monday's close, Growth's P/E of 27.7 was the highest since June 2001 and up from its 15-month low of 16.8 on 3/23. Growth's valuation previously peaked at 24.2 on 2/19, which was then its highest level since April 2002 when the Tech bubble was deflating. Value's forward P/E of 19.0 is the highest since July 1999 and up from 10.0 on 3/23, which was its lowest reading since November 2011. Regarding NERI, Growth's was negative in May for a tenth straight month as it tumbled to an 11-year low of -35.0% from -25.1% in April. That compares to a record high of 22.3% in March 2018. Value's NERI was negative in May for a 19th month, and down to an 11-year low of -39.0% from -30.8%; that compares to a record high of 21.2% in March 2018. The Tax Cuts and Jobs Act (TCJA) sharply boosted the consensus forward earnings estimates and the forward profit margin for both Growth and Value in 2018. Growth's forward profit margin of 14.9% on 5/28 is still slightly above the 14.4% prior to the TCJA's passage but down from its record high of 16.7% during September 2018. Value's forward profit margin of 8.0% is down from a record high of 10.5% in December 2018 and well below the 9.1% prior to the TCJA.

US ECONOMIC INDICATORS

NFIB Small Business Optimism Index ([link](#)): Optimism among small business owners began to recover in May after plunging in March and April. "As states begin to reopen, small businesses continue to navigate the economic landscape rocked by COVID-19 and new government policies," said NFIB's Chief Economist Bill Dunkelberg. "It's still uncertain when consumers will feel comfortable returning to small businesses and begin spending again, but owners are taking the necessary precautions to reopen safely." The Small Business Optimism Index (SBOI) climbed to 94.4 in May after sliding from 104.5 in February to 90.9 in April, which was the lowest reading since March 2013. Last month, eight of the 10 index components contributed positively to the SBOI, while two contributed negatively; in April, only one component contributed positively—business conditions. Sales expectations (+18ppts to -24%) bounced off April's record low, while those expecting better business conditions (+5 to 34) continued to improve, climbing to a 21-month high—building on April's 24.0-point rebound. Job creation jumped 7ppts to 8% after sliding from 21% in February to 1% in April (which was the lowest since December 2012), with May's advance "driven in part by the forgiveness portion

requirements of the Paycheck Protection Program and owners planning to re-hire workers as the economy is reopened,” according to the report. Plans to increase inventories (+6ppt to 2%) also posted a notable gain last month, after dipping into negative territory during March and April. Earnings trends (-6ppts to -26%) was the biggest drag on the SBOI last month, while current job openings (-2 to 23) fell to its lowest reading in over six years—though the rate of decline slowed considerably.

GLOBAL ECONOMIC INDICATORS

Eurozone GDP ([link](#)): Real GDP in the Eurozone contracted a record 13.6% (saar) during Q1, slightly less than the flash estimate. Real domestic demand sank a record 12.4% (saar) last quarter, after a 3.7% gain and a 3.5% loss the prior two quarters. Real household spending collapsed 17.4% (saar) last quarter, its first decline since Q1-2013 and the steepest on record. Meanwhile, investment in real gross capital formation continued its up-and-down pattern, plunging 16.0% (saar) following a 21.6% rebound during Q4 and an 18.3% shortfall during Q3. Real government spending contracted 1.5% (saar) during Q1, only the second decline since Q3-2012. Trade was a drag on growth as exports (-15.7%, saar) contracted at a faster pace than imports (-13.7). Looking at the four largest Eurozone economies, the contraction in Germany’s real GDP (-8.6%, saar) was smaller than the overall Eurozone’s -13.6%, while declines in France (-19.7), Italy (-19.6), and Spain (-19.4) all were sharper than the Eurozone’s shortfall.

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