CETERA®
INVESTMENT
MANAGEMENT

COMMENTARY

05/14/2020

Economic Data Is Bad, but That's Not What's Worrying Investors

- Recent stock market weakness is not due to the horrible economic data.
- Emerging factors point to slower, U-shaped recovery.
- We believe volatility will endure as uncertainty remains high.

Equity markets are retreating for a fourth consecutive day as dreadful economic data continues to be released. Initial jobless claims for the past two months are near 37 million. To put this in perspective, we gained 22 million jobs over the just-ended 11-year economic expansion, which was the longest on record. However, this horrendous news was expected, and investors have been largely looking past bad economic data and to a future economy full of trillions of dollars in fiscal stimulus and record-low borrowing costs. Optimism was relatively high and a V-shaped—or quick—recovery was being priced into markets. The recent market weakness isn't due to the economic data but other factors, which we think point more to the slower U-shaped recovery that we have been anticipating.

While this recent market weakness is relatively mild and could even be explained by some profit-taking after markets rallied in April, there are several factors bubbling up that could point to a slower recovery. As some states begin to reopen while others do not, the political climate is getting more contentious, which does not help the prospects for Congress agreeing on more fiscal stimulus. Some states and cities will need more money than others, and there are disagreements on reopening these economies for business. Additionally, as states and cities relax social distancing policies, the number of new cases will inevitably rise, which will cause speculation regarding a second wave of infections. Lastly, the pandemic is casting doubts on a U.S./China trade deal, as the two sides have grown further apart due to the virus.

Overall, our base-case scenario of a slower, U-shaped recovery with increased volatility remains intact. We believe investor optimism has been too high. While the amount of stimulus being pumped into the economy is enormous, it will take time to work its way into the real economy, and there will be bumps along the way. Many Americans have lost their jobs, and others will be reluctant to spend money for a host of reasons, including the fear of losing their job and the fear of contracting the virus. With consumer spending accounting for roughly two-thirds of the U.S. economy, this will slow the growth of the recovery. We do think the stimulus measures will limit the downside, and more stimulus is likely in an election as politicians will be reluctant to go back to their constituents without approving more money. We will recover, but it will be slower than what the markets were previously predicting. With so much uncertainty, volatility will inevitably remain.

We continue to recommend focusing on things that we can control, like long-term risk-and-return goals and being diversified among sectors and asset classes. There will be opportunities in this market as valuations diverge between sectors and asset classes, but we think investors will need more clarity before volatility subsides. These are challenging times, but your financial professional can help you stay on course.

This report was created by Cetera Investment Management LLC

About Cetera® Investment Management

Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group®

Cetera Financial Group (Cetera) is a leading network of independent firms empowering the delivery of professional financial advice to individuals, families and company retirement plans across the country through trusted financial advisors and financial institutions. Cetera is the second-largest independent financial advisor network in the nation by number of advisors, as well as a leading provider of retail services to the investment programs of banks and credit unions.

Through its multiple distinct firms, Cetera offers independent and institutions-based advisors the benefits of a large, established broker-dealer and registered investment adviser, while serving advisors and institutions in a way that is customized to their needs and aspirations. Advisor support resources offered through Cetera include award-winning wealth management and advisory platforms, comprehensive broker-dealer and registered investment adviser services, practice management support and innovative technology. For more information, visit cetera.com.

"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA/SIPC.

Disclosures

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your financial advisor is registered with. Please consult with your financial advisor for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.