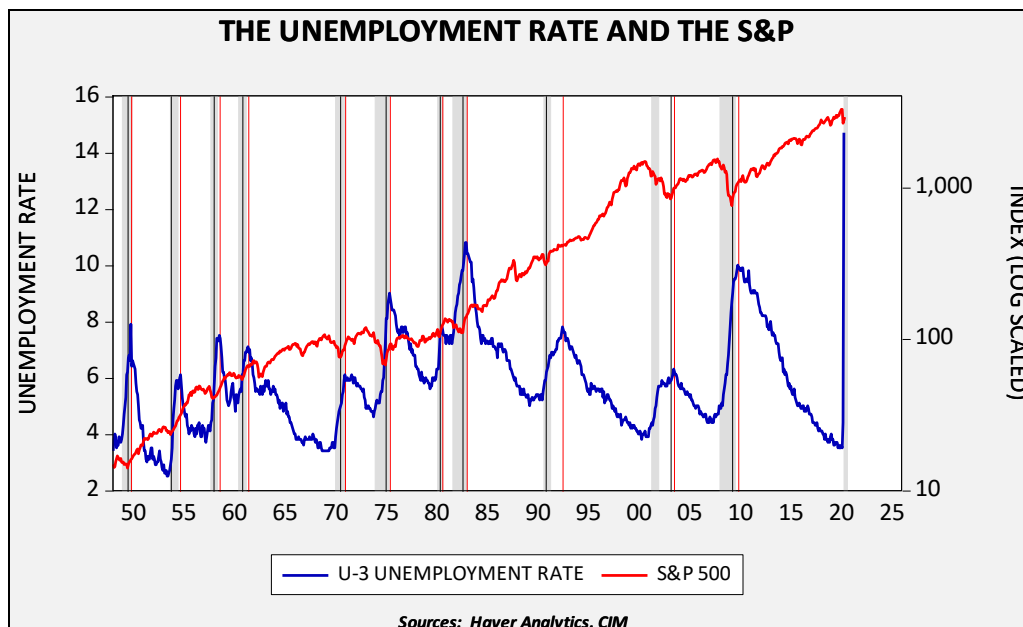


Confluence Investment Management offers various asset allocation products which are managed using “top down,” or macro, analysis. We publish asset allocation thoughts on a weekly basis in a special section within our Daily Comment report, updating the piece every Friday.

June 5, 2020

Last week, we discussed how equity markets, because of their anticipatory nature, tend to bottom in advance of the end of recessions. Assuming that condition continues, if our expectations for a short recession (but probably a long recovery) are correct, it would make sense that the equity market would have already bottomed. That historical pattern, coupled with extraordinarily supportive monetary policy, is supporting equity values.

The view of the economy for most Americans is the job market. In general, the common belief is that a good economy is one with a good job market. Economists tend to take a broader view and assume that the economy is more than just jobs. And so, when overall economic activity recovers, recessions are declared over. However, there are numerous cases where the economy and equity markets are doing fine, while the labor markets are still sluggish.



This chart shows the S&P 500 with the unemployment rate. We have placed black vertical lines at the trough of the equity index (using S&P 500 monthly averages) and a red line at the peak of unemployment. Here is a table of the results.

	EQUITY	U=3	
RECESSION	TROUGH	PEAK	MONTHS
1948-49	6/1/1949	10/1/1949	4
1953-54	9/1/1953	8/1/1954	11
1957-58	12/1/1957	7/1/1958	8
1960-61	10/1/1960	5/1/1961	7
1970	6/1/1970	12/1/1970	6
1973-75	12/1/1974	5/1/1975	6
1980	4/1/1980	7/1/1980	3
1981-82	7/1/1982	12/1/1982	5
1990-91	10/1/1990	6/1/1992	20
2001	2/1/2003	6/1/2003	4
2007-09	3/1/2009	10/1/2009	7
2020			
AVERAGE			7

This table shows that equities trough about seven months before the peak of the unemployment rate. Thus, if the unemployment rate has peaked the turn in equity markets seen in recent weeks would be consistent with that pattern. The full recovery in the labor markets will take much longer, but we do expect labor market conditions will steadily improve.

Past performance is no guarantee of future results. Information provided in this report is for educational and illustrative purposes only and should not be construed as individualized investment advice or a recommendation. The investment or strategy discussed may not be suitable for all investors. Investors must make their own decisions based on their specific investment objectives and financial circumstances. Opinions expressed are current as of the date shown and are subject to change.

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