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The Good News is that the Rally is Broadening

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The stock market surged on Wednesday on stronger than expected labor market news. The S&P 500 added 42 points, or 1.36% to close at 3123, and the Dow Jones Industrial Average jumped 527 points, or 2.05% to close over the 26,000 barriers at 26,270. The Nasdaq Composite closed 75 points higher, or 0.78%, closing at 9683 and finally the Russell 2000 surged 34 points or 2.39% to close at 1452.

The recession that we are experienced is obviously the result of a determination to protect public health and create public policy, guidelines, and procedures to that end. The problem is that human sociality had to be limited and eliminated in some situations to protect those at high risk of a negative physical result from the coronavirus. Our economy is built with human interaction in mind because consumers have demanded it. We are a mobile society and travel, leisure, entertainment, and work are a big part of the American experience. Indeed, significant capital has been deployed to serve this American experience. When that is shut down, it was bound to have significant impact on our economy.

When parts of the economy are shut down, any rally in the stock market will be limited to only the industries not negatively impacted, or even positively impacted. However, our economy is interconnected so you can't shut one part down without impacting others. The good news of late is that the broader markets indexes are outperforming. For some time, the technology-heavy NASDAQ index seemed like the only place to be and now other indexes are catching some momentum. The broadening out of the stock market is notable and welcome in that it reflects expectations that the broader economy is also improving.

As evidence of the improvement of the economy, Visa announced that domestic payments volume was down just 5% on a year-over-year basis in May a marked improvement from April when the payments volume was down 18% year-over-year. Certainly, some of that is due to the stimulus checks, but it also may be because the labor market is recovering more quickly than we think. Broken out by industry, Visa saw U.S. payments growth in food, drugstores, home improvement, retail services, automotive, retail goods, telecom, and utilities. Volumes in many sectors are still down but "less down" than April including restaurants, healthcare, and education.

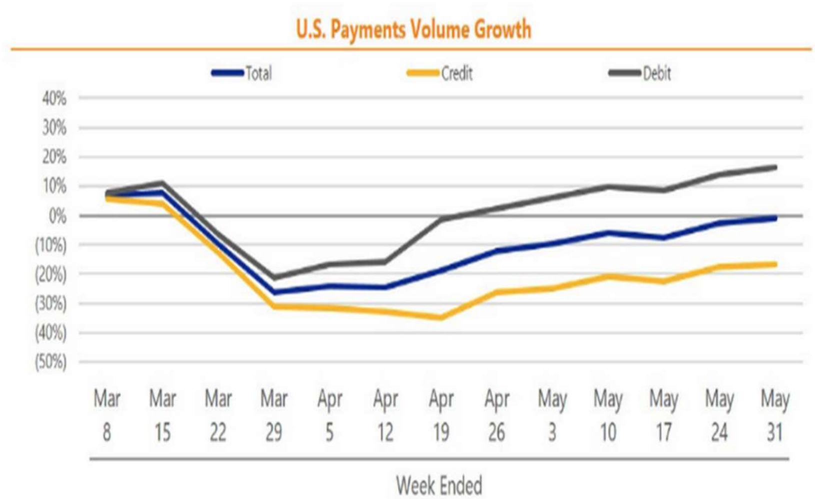

IMAGE SOURCE: VISA

To bolster the thesis that the economy is reviving ADP reported that May private payrolls declined by 2.76 million – a huge number, except that the expectation was private payrolls would decline 8.75 million! Further, the job losses were particularly steep for large businesses which represented 1.6 million of the decline. This "good" job loss report sets the stage for Friday's Labor Department report for May. Again, expectations are that it will show 8 million jobs lost. ADP would suggest that the expectations are too high.