

It hit like a derailed train, was hugely destructive but short lived. The recession that broke out with the onset of the coronavirus lasted just two months and officially ended in April 2020. That makes it the shortest downturn on record (previously the shortest recession lasted six months from January-June 1980). The National Bureau of Economic Research (NBER) said the recession ended in April because that is when the economy reached its lowest point in terms of jobs and output. The end of the recession did not mean that the economy had fully recovered, but rather than the bottom had been reached and economic growth resumed.



*"After graduation, what kind of job do you hope not to get?"*

The recovery continued in fits and starts over the past year, and by some measures is nearly complete. The economy's output of goods and services reached its pre-pandemic level in the second fiscal quarter of this year. This, despite the reality that high-contact industries (food services, entertainment and travel) is far below pre-pandemic levels. At the end of July, the government will release its first estimate of the economy's GDP -the total output of goods and services- for the second quarter, likely confirming that the economy as a whole has reached it pre-pandemic level.

While output has likely fully recovered, the economy still has roughly seven million fewer jobs than before Covid-19 arrived. The unemployment rate is around 6% compared with 3.5% before the downturn (a half-century low). The fact that output has fully recovered while jobs have not will raise concerns that companies have figured out how to produce goods and services with fewer people. Business have stepped up their investments in machinery, computers and software which could enable them to automate some work.

Still, employers are also desperate to hire and much of the jobs gap could be closed in the coming months. Employers added 850,000 jobs in June, the most in nearly a year. The forecast is for hiring to remain at those levels in the coming months. Our view is that as high-contact companies come back on line, the economy will boom and markets will reflect that. Time will tell, but we believe our forecast to be the basis for a higher equity allocation over the next 12 to 18 months.

Be safe, be well!

Martin

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