Tug-of-War Between Case Counts and Reopening Continues

Perhaps there's no better way to illustrate the tug-of-war between hopes for better economic results from reopenings and concern over increasing case counts than the reaction last Thursday to the June jobs report. While almost every metric in that report beat expectations, topped by a record 4.8 million new jobs, equities gave back much of their gains as the trading day wore on. Perhaps it was the knowledge that as good as the jobs report appeared to be, the surveys were taken during the second week of the month, just before increasing case counts took hold in the second half of June. It’s a good example that until those case counts start to decline, and we’re definitely not there yet, equities will struggle while Treasuries will continue to trade in the well-worn 0.54%-0.78% range for the 10-year note. Today’s ISM Non-Manufacturing Index will give us another tell on June activity focused on the services side which accounts for about 90% of the economy. The index is expected to print a 50.2 versus 45.4 in May. If that happens it will mark the return of a sector that sunk to 41.8 in April, firmly in recession territory. The caveat here, however, like the jobs report, is whether case count spikes will slow the momentum of early to mid-June. That will be the key factor the market wrestles with as we work through the month.

**Top 5 Events for the Week**

**JULY 6—10, 2020**

1. Reopening vs. Virus Counts—All Week
2. June ISM Non-Manufacturing Index—Monday
3. May JOLTS Job Openings—Tuesday
4. Initial Jobless Claims—Thursday
5. June PPI Report—Friday
1. Reopening/Virus Case Trends—All Week
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2. June ISM Non-Manufacturing Index—Monday
The June Employment Report gave us an early indication of the bounce, at least the first two weeks of the month, before case counts spiked higher. Wednesday’s ISM Non-Manufacturing Index for June will give us another tell on activity focused on the services side which accounts for about 90% of the economy. The index is expected to print a 50.2 versus 45.4 in May. If that comes to pass it will mark the return of a sector that sunk to 41.8 in April, firmly in recession territory, but is now on the verge of returning to an expansionary state. The caveat here, however, like the jobs report is whether, after the spike in case counts, the momentum in June will carry over to July. That will be the key factor the market wrestles with as we work through the month.

3. May JOLTS Job Openings Report—Tuesday
The JOLTS report will show activity throughout the whole month of May. Payrolls capture the data through the 12th of the month. In May, the economy added 2.5 million jobs and the unemployment rate ticked down to 13.3% from 14.7% prior. The number of unemployed (approx. 21mm in May) will easily exceed job openings which are expected to be 4.500 million, highlighting the severe slack in the labor market. The report may also offer clues on the continuing high level of layoffs seen in jobless claims. Businesses are rehiring as the economy reopens, but a second wave of layoffs could be hidden in the net payroll numbers.

4. Initial Jobless Claims—Thursday
Spiking virus cases present several downside risks to the tentative economic recovery. Workers in services jobs, such as leisure and hospitality, may see renewed job losses as those establishments close or delay reopening plans. The Bloomberg consensus expects jobless claims for the week ended July 4 to come in at 1.375 mm down slightly from 1.427 mm the previous week. Bloomberg’s preliminary forecast for the July employment report is a reversal of the positive trend in May and especially in June. Bloomberg expects a drop in nonfarm payrolls of 1 million and slower improvement in the unemployment rate, in line with persistently elevated levels of continuing claims.

5. June PPI Report—Friday
Although the more consequential CPI report will be released next week, producer prices for June, particularly the core measure, are likely to reinforce the notion that getting to the Fed’s 2% target will be a long process. Plenty of spare capacity combined with a strong dollar will override isolated supply shortages that apply upward price pressure in a few areas. At 0.3% year-over-year in May, the ex-food-and-energy PPI overstates the degree of resilience. A narrower core measure that excludes trade services contracted -0.4% from a year prior in May. The monthly changes in price are expected to be at or very near the May results indicating very little movement in the year-over-year change which is expected be -0.2% for final demand and 0.4% for core PPI.