

# A MOMENT IN MARKETS – NOT QUITE A V-SHAPED RECOVERY

Mobeen Tahir – Director, Research  
06 Jul 2020

It is useful to follow economic data. But caution is warranted.

## A glance at the data

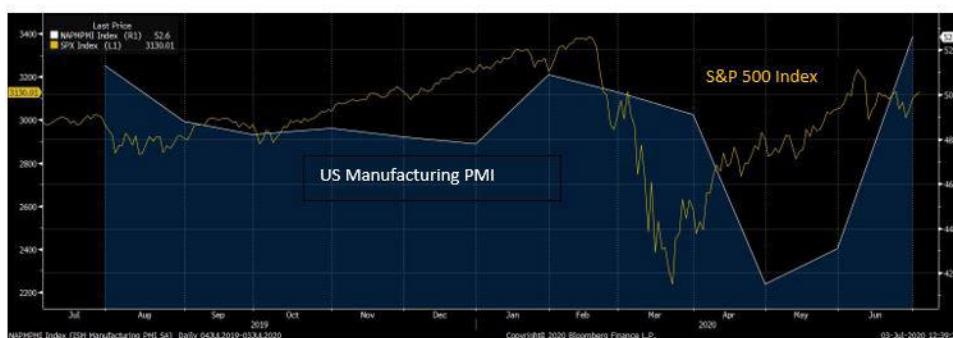
The Purchasing Managers Index (PMI) is a helpful indicator to gauge the state of the economy. A reading above 50, at any point in time, signals that economic activity is expanding whereas a reading below 50 signals contraction. The Manufacturing PMI for the United States has surged past 50 – recovering strongly from where it was in April and May.

Another encouraging data point is the addition of 4.8 million jobs in the US economy during June after 2.5 million jobs were added in May.

## The equity market reaction

This is positive news for equity markets. During a 4-day working week in the US last week, the S&P 500 Index was up over 2.5% while the NASDAQ Composite Index was up over 3.4%.

Figure 01: PMIs join US equities to create a V-shape



Source: Bloomberg, Data from 04/07/2019 to 03/07/2020. NAPM/PMI Index refers to the Institute for Supply Management (ISM) Manufacturing PMI. SPX Index refers to the S&P 500 Index.

**Historical performance is not an indication of future performance and any investments may go down in value.**

## Why caution is warranted

The economic data is indeed encouraging and is a step in the right direction. It does not however amount to a V-shaped economic recovery. Investors should consider the following:

- PMIs highlight the month-on-month change in economic activity. With the US (and the global economy) emerging from strict lockdowns, a sharp recovery in PMIs is not surprising
- The addition of around 7.3 million jobs in the US over May and June follows the loss of 20 million jobs in April. US unemployment in July is still extremely high at 11.1% and will return to more tolerable levels very gradually if the economy continues to improve
- Gross domestic product (GDP) growth figures for Q2 2020 and inflation numbers for June are likely to present a more sobering picture of the world compared to equity markets
- The pandemic is far from over and the US is experiencing a sharp increase in daily new cases since the middle of June.

Thus, even if the pandemic is overcome, the economic recovery is likely to be slow and steady. Investors should still be considering which equity exposures will add balance and robustness to their portfolios during the uncertainty which lies ahead.

#### Related blogs

+ [That which masks the risks is irrational exuberance](#)

#### Related products

+ [Defensive Assets](#)

View the online version of this article [here](#).

Important Information

**Marketing communications issued in the European Economic Area (“EEA”):** This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland.

**Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority.

WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as “WisdomTree” (as applicable). Our Conflicts of Interest Policy and Inventory are available on request.

**For professional clients only.** The information contained in this document is for your general information only and is neither an offer for sale nor a solicitation of an offer to buy securities or shares. This document should not be used as the basis for any investment decision. Investments may go up or down in value and you may lose some or all of the amount invested. Past performance is not necessarily a guide to future performance. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

The application of regulations and tax laws can often lead to a number of different interpretations. Any views or opinions expressed in this communication represent the views of WisdomTree and should not be construed as regulatory, tax or legal advice. WisdomTree makes no warranty or representation as to the accuracy of any of the views or opinions expressed in this communication. Any decision to invest should be based on the information contained in the appropriate prospectus and after seeking independent investment, tax and legal advice.

This document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares or securities in the United States or any province or territory thereof. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States.

Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree does not warrant or guarantee its accuracy or correctness. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents.