The Great American Comeback

The three-week surge in the stock market has been accompanied by improving breadth and momentum that has carried the S&P 500 Index to within striking distance of February’s record high. The Labor Department revealed on Friday a stunning rebound in employment with the economy adding 2.5 million jobs in the month of May even though our economy has only partially re-opened. Wall Street analysts were expecting a loss of 8 million jobs. The unemployment rate fell to 13.3%, better than the 20% expectation. It seems likely that the bad news on jobs is behind us.

The Virus – We are seeing no evidence of a notable pick-up in the virus infection rates as the economy safely reopens. The daily growth rate of infections from the virus has dropped significantly. Testing is catching up to demand and the virus is down to levels that hospitals can support.

The Economy – The surprising jobs numbers in the month of May and the unemployment rate point to a faster recovery than anyone expected. Part of the good news on jobs centers on the manufacturing sector which showed a rebound of 225,000 manufacturing jobs added as the Federal Government is offering to pay moving costs and tax incentives for American companies to bring their overseas supply chains back to American shores. We expect to see these jobs numbers continue to grow.

Online reservations for vacation rentals have increased 127% since April. Mortgage applications moved above the pre-virus levels and auto sales have improved significantly since April. Travel and restaurant bookings are increasing. Consumer spending will be the key to our economic recovery and the fact that the savings rate has soared during the shutdown should provide fuel to satisfy pent-up demand.

We will continue to have challenges – national civil unrest, elevated levels of unemployment with many jobs not coming back, rising tensions between Beijing and the U.S., and a possible second wave of the virus. We will need additional economic data to confirm the jobs numbers in order to establish that the economy is on a solid recovery track, but so far so good.

The Federal Reserve meets this week. Even though the Fed does not have any more room to cut interest rates, they have other tools such as forward guidance and quantitative easing. Additionally, there has been talk of “yield curve control” where the Fed instigates a policy of making sure interest rates stay at rock bottom all along the borrowing curve by buying Treasury bonds of different durations.

Technicals and Sectors – Over the past two weeks the stock market has broadened out from a small group of large tech and healthcare stocks to other sectors that are more closely tied to the economy, such as financials and industrials.

The Russell 2000, comprised of 2000 small-cap companies, gained 3.8% last week while the S&P Mid Cap Average soared more than 8%. Historically, small-caps outperform as the economy exits a recession. Small-cap stocks in this market are oversold relative to large caps.

Bottom Line – The economic recovery will depend on the path of the virus pandemic, the creation of medicines and vaccines and the continuance of fiscal and monetary stimulus. Improving expectations for the economy along with additional stimulus is a winning backdrop for cyclical and small and mid-cap sectors. Financials, industrials, materials and communication sectors are areas where we suggest investors focus.
## Sentiment Indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Current</th>
<th>Previous</th>
<th>Indication (from contrarian perspective)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBOE 10-Day Put/Call Ratio</td>
<td>82%</td>
<td>86%</td>
<td>Bearish</td>
</tr>
<tr>
<td>CBOE 3-Day Equity Put/Call Ratio</td>
<td>41%</td>
<td>54%</td>
<td>Bearish</td>
</tr>
<tr>
<td>VIX Volatility Index</td>
<td>25</td>
<td>27</td>
<td>Neutral</td>
</tr>
<tr>
<td>American Association of Individual Investors</td>
<td>Bulls: 35% Bears: 39%</td>
<td>Bulls: 33% Bears: 42%</td>
<td>Neutral</td>
</tr>
<tr>
<td>Investors Intelligence (Advisory Services)</td>
<td>Bulls: 54% Bears: 24%</td>
<td>Bulls: 51% Bears: 24%</td>
<td>Neutral</td>
</tr>
<tr>
<td>National Assoc. of Active Investment Mgrs. (NAAIM)</td>
<td>92%</td>
<td>82%</td>
<td>Bearish</td>
</tr>
<tr>
<td>Ned Davis Research Crowd Sentiment Poll</td>
<td>Pessimism Fading</td>
<td>Excessive Pessimism</td>
<td>Neutral</td>
</tr>
<tr>
<td>Ned Davis Research Daily Trading Sentiment Composite</td>
<td>Excessive Optimism</td>
<td>Pessimism Fading</td>
<td>Bearish</td>
</tr>
</tbody>
</table>
Appendix – Important Disclosures and Analyst Certification

Analyst Certification

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 and any other indices mentioned are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a “personal recommendation” or “investment advice”, as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area (“EEA”) by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority (“FCA”) in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as “relevant persons”). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.
Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited’s Conflicts of Interest Policy, available here, outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated’s policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated’s research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

Copyright 2020 Robert W. Baird & Co. Incorporated