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**Is the US recovery stalling out?**

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## <u>High-frequency data</u>

As mentioned in previous notes, Congress's CARES Act fiscal stimulus, well-accommodated by the Federal Reserve, was an extremely potent cocktail of income replacement and backstops. As the direct individual payments, PPP loans, and expanded unemployment insurance were disbursed, incomes strongly rebounded, helping to drive a recovery in the data picture. In addition, the relatively quick reopenings in much of the United States helped accelerate this recovery, as mobility rebounded and with it, spending.

However, as the US begins to experience second waves of COVID new case growth (more on that below), and on the eve of some of the fiscal policy backstops sunsetting, there are increasing signs that the recovery is stalling, and in some areas, even reversing. Our read of the data suggests that, unlike much of Europe and East Asia, the US recovery began to turn back down in the second half of June.

Homebase, a scheduling and time tracking tool that is used by over 100,000 small businesses and their over one million hourly workers, offers high-frequency data on hours worked, hourly workers employed, and small businesses open. Their data and samples are especially useful right now, because they are weighted toward smaller, service-sector businesses and workers. Below, we plot the week-over-week changes in the three metrics mentioned above, with adjustments made for the Easter and Memorial Day holidays.

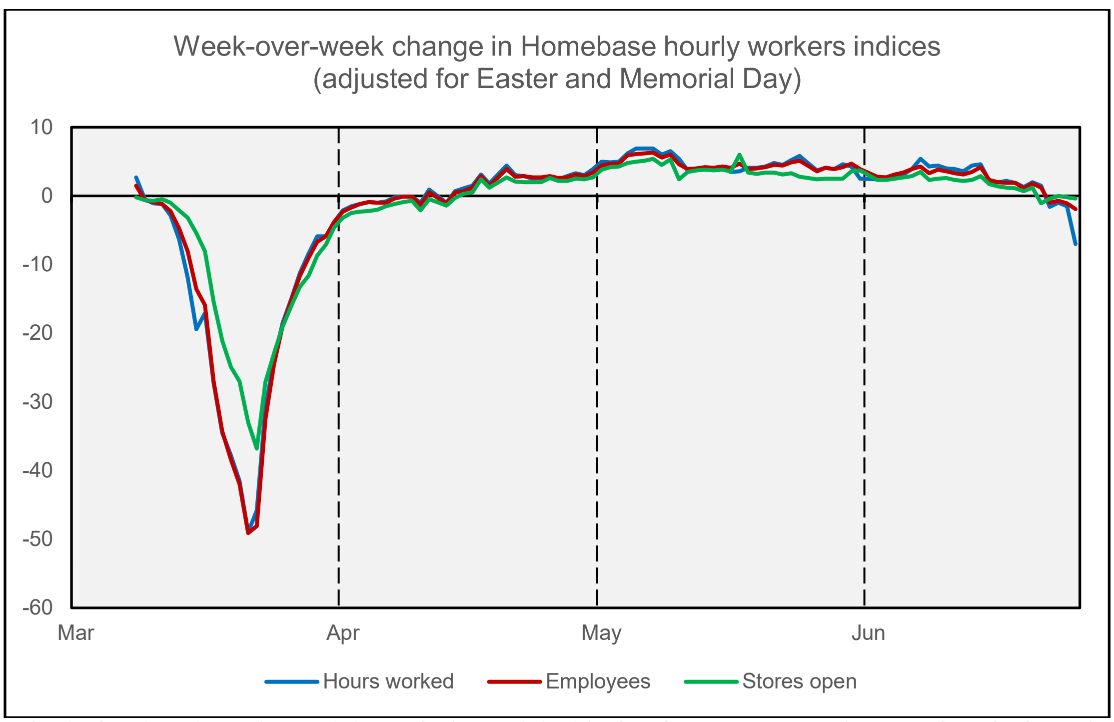


*Chart 1. Homebase hourly workers indices (week-over week change). Blue: hours worked, red: hourly employees, green: stores open. Source: Homebase, Bloomberg, author's calculations.*

After a sharp recovery from late March, the Homebase data entered into "growth territory" (above the zero-line) in mid April, and had been holding up since. However, all three metrics began to decelerate in June, and ultimately fell back into "contraction territory" (below the zero-line) in the last two weeks of June. Similar to in March, hours worked are leading on the way down, followed by employees, and then stores open. This is consistent with the typical sequence of how businesses respond to economic pressure: first they cut hours, then workers, and then have to close down.

Similarly, OpenTable offers data for the trends in the number of seated diners in the United States (and in fact, around the world). After a strong recovery from the beginning of May, as some states reopened, this metric also started stalling out in the second half of June. In the states showing sharply-escalating new COVID case count growth, the reversal is even more striking. Below, we plot the year-over-year growth rate in OpenTable seated diners, for the US overall, Texas, California, Arizona, and Germany (for a cross-country comparison). This data has been adjusted for Father's Day, which saw a sharp spike that swiftly reversed, in order to more clearly highlight the underlying trends.

As can be seen, the overall US data (black) has started to decelerate and flatline, at about 60-70% below where things stood a year ago. Troublingly, in states that reopened sooner like Texas (red) and Arizona (purple), activity began decelerating in early June and began outright contraction in the second half of June. Meanwhile, Germany's data (green) has approached more or less "normalized" levels.

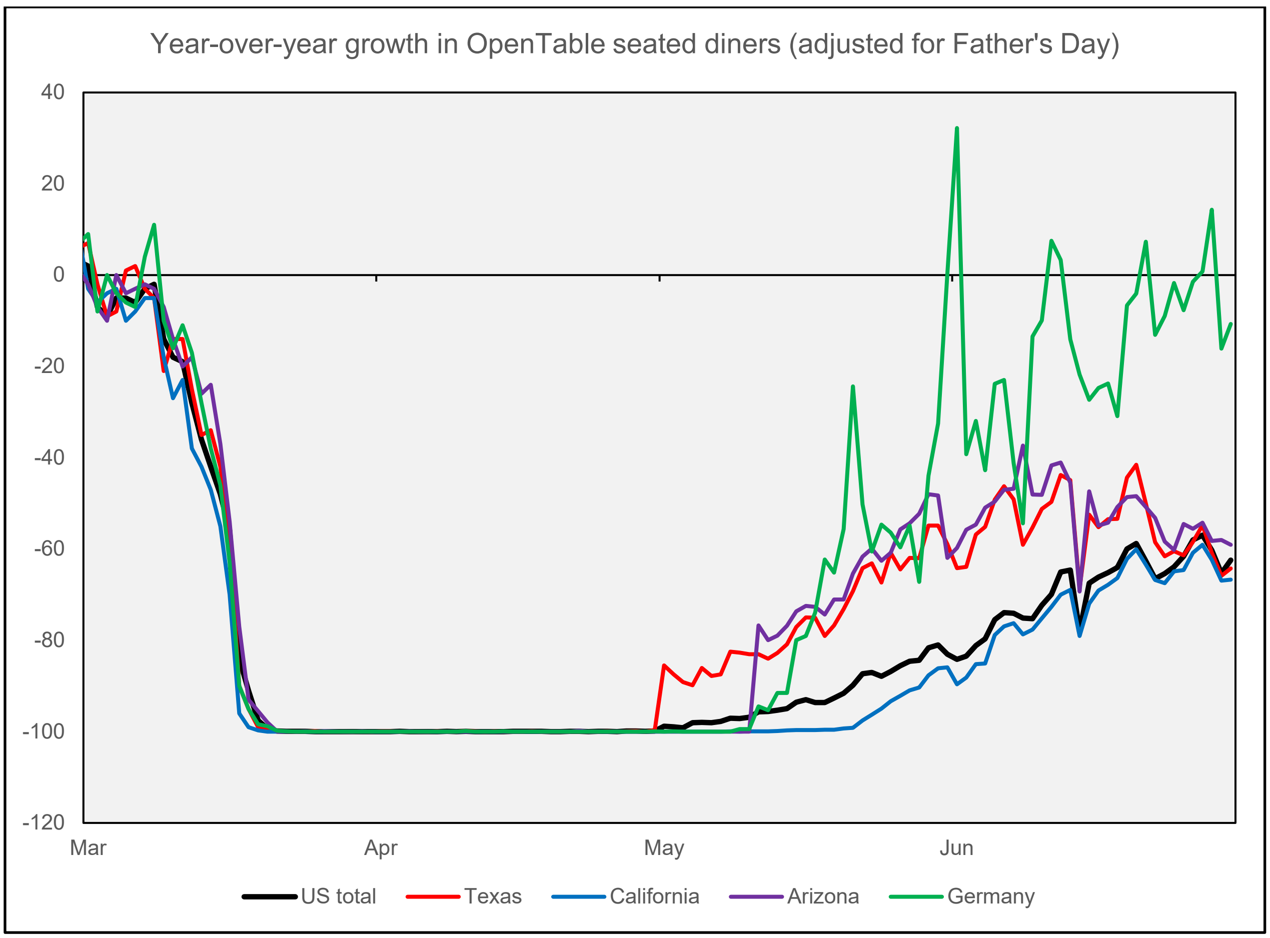


***Chart 2.*** *OpenTable seated diners (year-over-year change). Black: US total, red: Texas, blue: California, purple: Arizona, green: Germany. Source: OpenTable, Bloomberg, author's calculations.*

Yet another sign of the June slowdown is visible in the TSA's total US travelers data. Below is the week-over-week growth rate in the TSA data, which has been positive since mid-April. Throughout June, this growth rate has been decelerating, and is now approaching a potential break into "contraction territory" (below the zero-line), despite being at a very low base (only about half a million daily travelers, compared to about two million daily travelers pre-COVID).

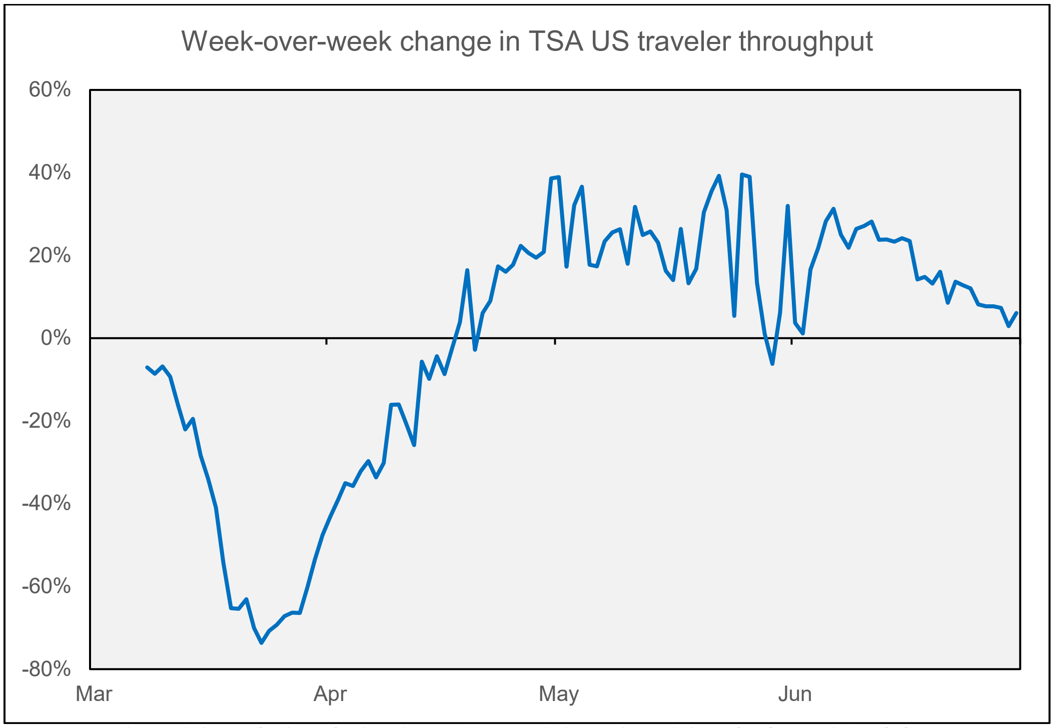


***Chart 3.*** *TSA total US traveler throughput (week-over-week change). Source: TSA, Bloomberg, author's calculations.*

Furthermore, below we plot the growth rate in JP Morgan's Chase consumer card spending tracker. This data emphasizes the same dynamics as the charts above do: a consistent recovery since April that started to turn back down, for the first time, in the second half of June. According to JP Morgan, the slowdown is relatively broad-based, but especially acute in states like Texas, where COVID fears are returning on the back of accelerating new cases and hospitalization rates.

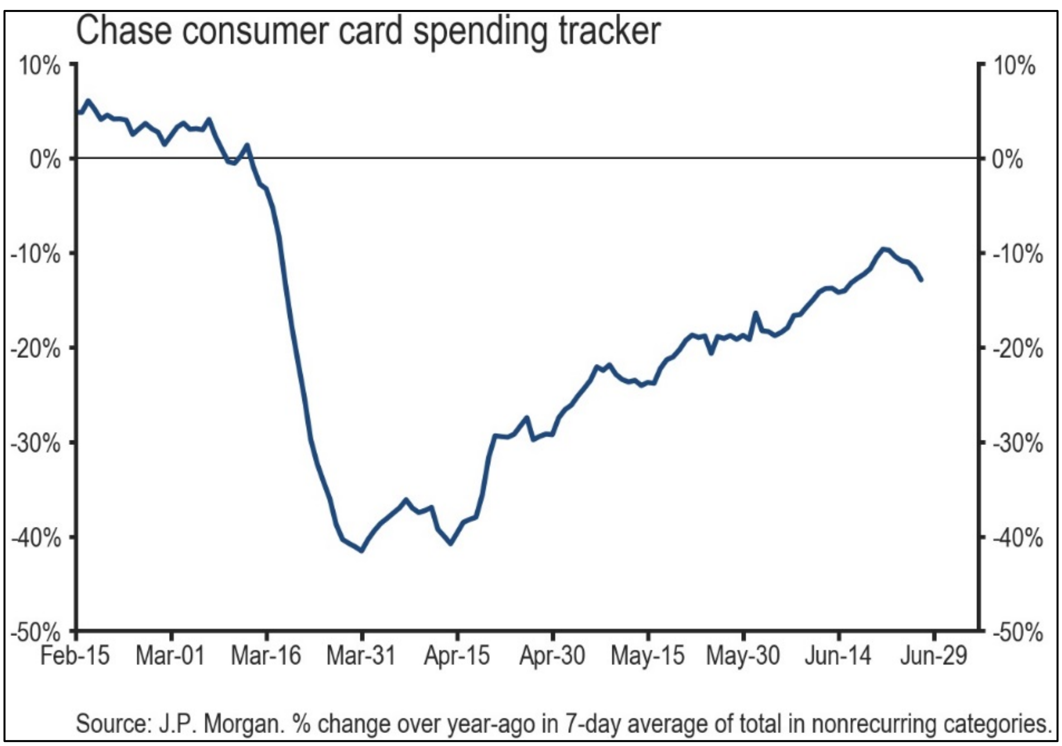


***Chart 4.*** *Chase consumer card spending tracker. Source: JP Morgan.*

Finally, the US Census Bureau's Small Business Impulse data seems to confirm the above data series, as well, and providing further validation of the trends in small business data discussed in the Homebase analysis above.

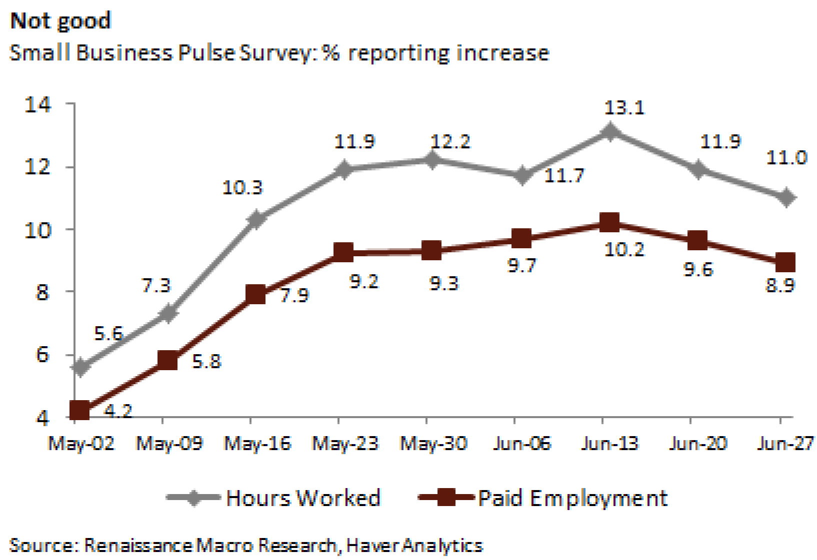


***Chart 5.** Small Business Pulse Survey, % reporting increase in hours worked (grey) and paid employment (brown). Source: Census Bureau, Renaissance Macro Research.*

**COVID fears and fiscal stimulus**

All of the above highlights how the nascent second wave of COVID cases and hospitalization is already damaging the US economy, despite no return to lockdowns and only some (recent) reopening reversals. Consumer behavior seems to be responding to the renewed public health risks, but just as importantly, employer behavior seems to also be changing. This negatively feeds the income/spending nexus on both sides, as both the return-to-work and rebounding-spending dynamics concurrently reverse back down.

There is plenty of scope for policy to address this, similar to in March, by extending the enhanced unemployment benefits and sending another batch of stimulus checks to individuals, for example. However, the signaling from both the Senate GOP as well as the White House continue to be along the lines of "return-to-work" stimulus proposals and a focus on "incentivizing work". President Trump and Senator McConnell both continue to express the view that the enhanced unemployment insurance provisions from the CARES Act "disincentivize work" because of the income support that lower-income unemployed individuals received (often equal to or greater than the income they were receiving while still employed pre-COVID). We think this bodes poorly for the potency of the fiscal package being discussed for July, and that the recovery beginning to stall (and in some places, reverse back down) right as the fiscal impulse's size and composition shift is concerning.

Because of Senate recesses on both sides of the July 17 to August 7 "window" for another fiscal package to be passed in the near-term, we think the likelihood for a better-composed fiscal stimulus is waning. Our "bull case" is that there is another round of stimulus checks sent to individuals, but we are skeptical that the expiring enhanced unemployment insurance provisions are extended.

**Markets**

We remain constructive on European assets, as the relatively successful combating of the virus and emerging steps toward common budget across the continent are tailwinds that intersect well together. Indeed, European assets have outperformed US assets for the last few months, in spite of the sharp rally in US risk assets. This is especially the case when comparing the cyclical assets between the two economies (since secular megacap tech stocks like Amazon, Facebook, and Google drove much of the S&P 500's gains).

As mentioned in our prior note, we are skeptical of durable upside in the Russell 2000 index (primarily small- and mid-cap companies, which tend to be more cyclical and more "connected" to the underlying economy) beyond the 1450-1460 zone. Indeed, the Russell 2000 has been unable to generate any durable gains since initially recovering to that zone, and we remain of this view and are once again moving toward a bearish tilt. If downside materializes, we expect to be turning back to a more constructive posture on US risk assets, as signs emerge that Congress is willing to respond to renewed market pressures with more effective fiscal stimulus, perhaps in late August or in September.

In the meantime, we are tracking a few nascent developments. Equity put/call ratios (which measure the volume of put options bought versus call options) have been persistently low now for weeks. The 50-day moving average of total equity P/C ratios is back to January 2020 lows, which themselves were the lowest in the entire 2009-2020 rally period. More granularly, they have spent most of their time since May below 60%, reflecting increasing investor pressure to capture upside, and diminishing protection for downside. We have found that consistently low equity P/C ratios often arise ahead of market volatility. Even the most recent mini-bouts of markets volatility only took us to about 70% on this metric, a level commonly seen even during relatively benign market conditions in 2017-2019.


***Chart 6.*** *Total equity put/call ratios. Source: CBOE, StockCharts.*

SqueezeMetrics provides a "dark pool index" that measures the flow of money on "dark" exchanges, which are used to reduce transaction costs by being able to trade between the bid and ask on "lit" exchanges. This metric was very helpful to us, as we turned bullish in late March, as it signaled a flurry of strong buying appearing, confirming our posture, and ultimately being validated by the market's trajectory since then. Interestingly, it has remained relatively consistently "bullish" since then, and only began to turn (rather sharply) starting in the third week of June. It is now in the "bearish" zone, and combining this with the complacency reflected in equity P/C ratios, the nascent slowdown in the activity data, and signals from Washington about fiscal policy, suggest markets may face renewed volatility, until we get a stronger fiscal package.

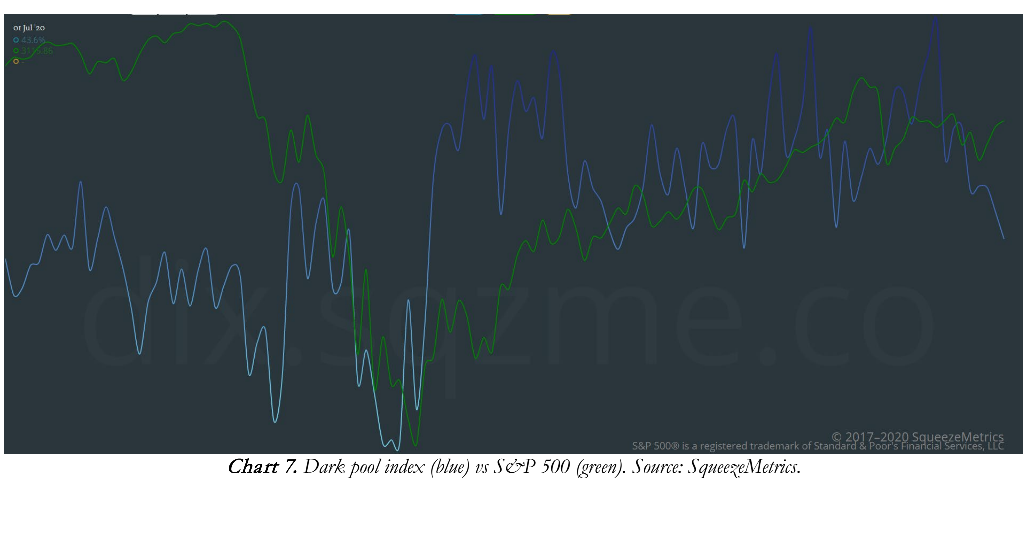


***Chart 7.*** *Dark pool index (blue) vs S&P 500 (green). Source: SqueezeMetrics.*