The Coronavirus Dividends

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Last Friday the government announced that existing home sales increased 24.7% in July to a 5.86 million annual rate, easily beating the expectation of 5.40 million. Sales are up 8.7% versus a year ago. While sales are booming across mostly rural areas, cities are suffering as residents are moving away from the crowded urban environment to pastoral towns where there is less of a chance of getting the virus. The link to this migration is the newfound ability to work from home even when home can be thousands of miles away from the office. Equity markets have reflected this change as many home-building and renovation companies are showing up on the new high list as their earnings are surging well beyond expectations. Two such examples of success are Lowes and Home Depot that are at the forefront of this surge. According to First Trust Advisors: "today's report showed that inventories were lower than any other July on record and down 21.1% versus a year ago (the best measure for inventories given the seasonality of the data). This lack of options has caused median price growth to reaccelerate as well, up from a year-ago comparison of 1.9% in May to 8.5% in July."

Over the past two weeks we have spoken with realtors in Charleston and Hilton Head. Based on their recent experience, the business of home sales is booming. With mortgage rates below 3% for a thirty-year conventional loan, and the realization that home prices in the countryside are a lot lower than in cities, qualified buyers are not waiting to make an investment that is likely to rise in value as demand continues to outstrip supply. We are seeing offers for homes that exceed the asking price, especially for those that just came on the market. One of our clients sold his home in two days at the full asking price. He was pressed to find another home but there was not one available until the last day of his week-long search.

Stock prices, as measured by the S&P 500 and NASDAQ indices, are hitting record highs. Most recipients of funds from the CARES Act in early March have either saved their payment or paid down debt. Further government distributions that are in discussion may bolster the balance sheets of individuals and allow them to have more flexibility in spending in coming months. Any breakthroughs on coronavirus vaccines and therapeutic treatments should increase consumer confidence and buoy spending going into the holiday season that is not far away. Improving economic statistics suggest the rally in stock prices is signaling that the economy will continue to get better. Prices of goods in short supply such as housing may continue to get a boost from the underlying easy Fed policy and commitment to keep interest rates low.

Unfortunately, there are many sectors of the economy that continue to suffer from the aftermath of the national shutdown due to the coronavirus. While the NASDAQ index has surged 26.9% this year, the S&P 600 small-cap index remains in negative territory along with foreign equities. As we have discussed before, smaller companies have been hit harder than their larger brethren who are able to shift their business models to survive. Foreign stocks as measured by the MSCI World ex US index have suffered from severe supply-chain disruptions in addition to travel restrictions for both business and pleasure. However, the virus has also created great opportunities for companies to meet the needs of a new way of life for many of us. A cursory review of the successes of initial public offerings (IPOs) tells us that the small company index will soon be populated by these new companies and provide some lift to this lagging index.