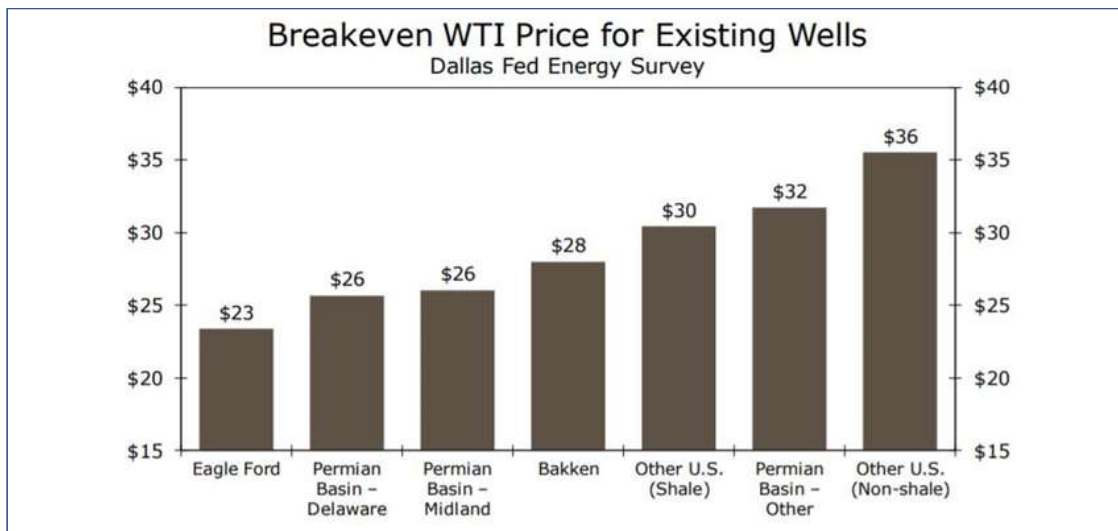


Market Recap

As Oil Demand Tumbles, Prices Crater



Source: Wells Fargo

The May monthly contract price for oil closed below zero for the first time last week (-\$37/barrel) as energy operators simply ran out of physical storage capacity. Although WTI oil prices have rebounded to ~\$18, the collapse in demand is stark evidence of growing deflationary pressures on the economy. Domestic oil production is subsequently being slashed as spot prices fall below the levels required to cover operating costs. While futures contracts anticipate higher prices later in the year, oil appears unlikely to rise above \$35 anytime soon. As a result, Americans are likely to see surging bankruptcies and consolidation in a prolonged period of pain across the Energy sector.

Divergent Perspective: Stocks & the Economy



Source: FactSet

Since the pandemic arrived on our shores, the resilience of large-cap stocks relative to their smaller brethren has been notable. The outperformance of large-cap indices through the downturn can largely be explained by a combination of 1) Stronger balance sheets, 2) higher profit margins, and 3) outsized exposure to Big Tech. At the same time, this chapter is also a good reminder that a market-cap-weighted index like the S&P 500 isn't necessarily the best proxy for the broader economy. Although the 10 largest constituents in the S&P 500 account for more than 25% of the overall index, they don't account for 25% of U.S. GDP, nor do they employ 25% of the labor force (far from it).

Market Recap

Small Businesses: Not So Small



Source: Goldman Sachs

The NFIB Small Business Optimism Index captures the sentiment and trends of small businesses in the U.S. economy. A reading above 100 indicates optimism about the economic outlook, while any value below 100 can be interpreted as pessimism. The National Federation of Independent Business (NFIB) members are surveyed every month and answer questions about the health of their business and prospects. The typical NFIB member has 10 employees and reports sales of \$500,000. Surprisingly, small businesses represent roughly 50% of the U.S. workforce and account for around 44% of U.S. GDP.

Where is All the TP?



Source: The Week

A rise in hoarding behavior is common during times of natural disaster, and unlike milk and eggs, toilet paper doesn't have an expiration date. With North American toilet paper manufacturers already running 24/7 to produce this staple, there isn't a lot of excess capacity to bring online when demand spikes. Thus, the current surge in demand has left a sparse supply of toilet paper on store shelves. Moreover, there isn't much of a financial incentive for retailers to build up inventories. Toilet paper is a bulky, relatively low-margin product for them, making it inefficient to store excess rolls in the back of the store.

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