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## The question now is how many people will go back to work

◆ Jobs report tomorrow will show how many people were returning from furlough and how many were permanently dismissed.

◆ Markets are currently pricing a quick recovery which probably entails unemployment levels returning to more normal levels.

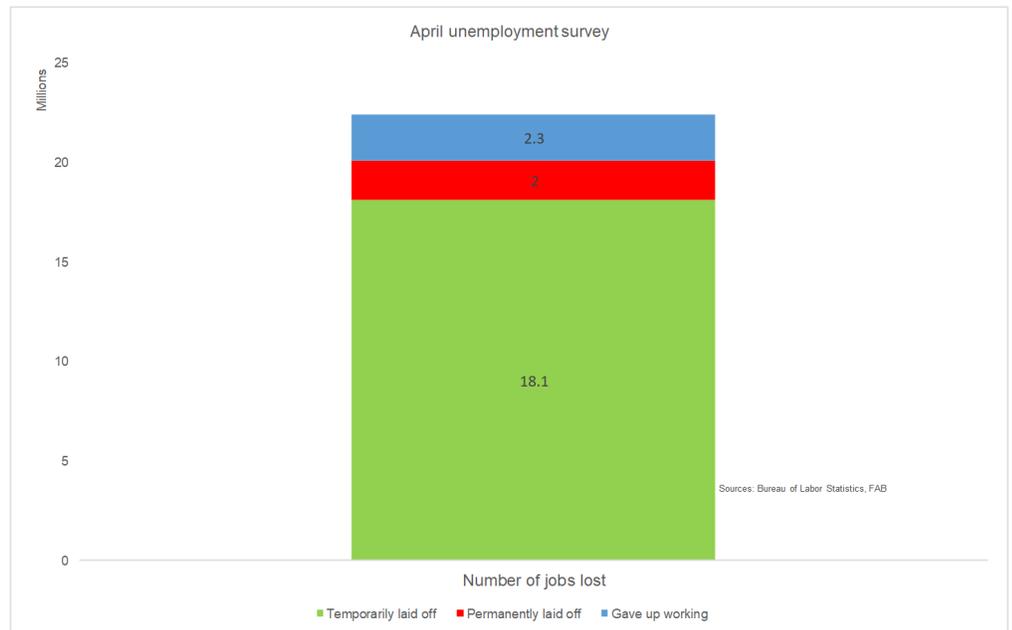
◆ However, many furloughs are likely to become permanent as many companies go out of business.

◆ Still, low rates and large amounts of cash continue to support risk assets.

◆ FAB AAC remains underweight in equities and overweight in gold.

Jobs matter for markets and the US has lost a record number of them in the past three months. Many of those will come back, and, judging by risk asset prices, investors seem to bet that this number will be significant. There was some support for that thesis in the April nonfarm payrolls report, which indicated that 81% of the people surveyed who had said they lost their jobs identified their situation as being a temporary layoff.

If those furloughs were reversed, the unemployment rate would remain high, but would probably drop below the 10% at which it peaked in the 2009 crisis. Before that, however, tomorrow's May nonfarm payrolls report is likely to show that the unemployment rate rose to 19.5% after another 8 million people lost their jobs last month, according to the consensus estimate on Bloomberg. However, the really key number to watch in the survey from the Bureau of Labor Statistics is how many furloughs were made permanent.



Any indication that more of those 'temporary layoffs' have become forever could prompt a reassessment of the expectations of how fast the US economy will recover. And such a reassessment could challenge the expectations of a quick recovery that would justify current stock prices.

Unfortunately for investors, a very large portion of the furloughs are likely to be made permanent as companies which were still hopeful of remaining in business down under debt and bills. Bankruptcies tend to lag in economic crises and the majority of the ones to be expected in the US is probably yet to come, though they have started. In May, every week a different big chain filed for bankruptcy protection, ranging from car rental company Hertz to retailer JCPenney. This filing does not mean these companies are out of business, on the contrary, they file to be protected from creditors while they try to remain as a going concern.

### About 81% of the jobs lost in April were identified as temporary layoffs — so far

Still many do not survive after the filing. Larger companies have a better chance to do so, but chances for the smaller ones are slim. And the number of small companies filing for bankruptcy was already on the rise before Covid-19.

To be sure, markets preempt the reversal of the economy and this month may see the worst of the crisis. Besides, with so much liquidity in the system there is just a lot of cash looking for higher returns that will end up in the equity market. Yet, depending on what transpires in tomorrow's payroll numbers investors may have to reconsider how fast they expect the world economy to return to normal. Common sense and history suggest it may be a bit longer than what is now priced in.

# Investment Strategy Update

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