

Last Week's Economic/Market Summary – August 10, 2020

Data

- U.S. equity benchmarks finished the week higher across the board last week.
 - S&P 500 +2.5%, Dow +3.9%, Russell 2000 +6.0%, Nasdaq +2.5%¹
 - The All-Country World Index was up +2.03%.¹
 - S&P 500 sub-sectors were all positive on the week.
 - Cyclical sectors of Industrials & Financials led to the upside.¹
 - Defensive oriented sectors of Staples, Utilities, & Real Estate had the smallest gains.¹
 - The CBOE Volatility Index (VIX) dropped 9.2% last week to end at 22.21.¹
- US Treasury bonds took a breather from their recent run up as yields rose.
 - US 2yr +0.02% at 0.13%, 10yr +0.04% to 0.56%, 30yr +0.04% to 1.23%.¹
 - The US Treasury recently expanded its plans for borrowing.¹
- Commodities as an aggregate asset class moved higher last week.
 - WTI Crude gained 2%.¹
 - Gold rallied 3%.¹
 - The US Dollar index was flat.¹
- In our opinion, U.S. economic data was mixed last week.
 - July non-farm payrolls showed a recovering job market but at a slower pace.¹
 - Measures of US manufacturing & services exceeded expectations.¹
 - Congress failed to reach a deal on add'l economic relief.¹
- An index of equities outside the US (FTSE All-World ex-US) was higher by over 2%.¹

¹ Source: Bloomberg – 8/7/2020

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Conclusion

- US equity markets were in the green last week as all major benchmarks grinded higher.
 - S&P 500 +2.5%, Dow +3.9%, Russell 2000 +6.0%, Nasdaq +2.5%
 - In our opinion, the small-cap tracking Russell 2000 leading to the upside could be a positive development for the health of equity markets if this trend continues.
 - Interesting to note that compared to past market recoveries, the current bounce-back exceeds every historical comparison in speed & amount.²
- S&P 500 sub-sectors were all up last week.
 - Interesting price action as reflationary/cyclical sectors led to the upside.
 - Industrials +4.74%, Financials +3.37%, Energy +3.19%.²
 - While this could be helpful to markets finding new footing to move higher, we believe at present time this is simply investors taking profits from Tech and reallocating.
- US Treasuries took a breather from their epic run higher as yield increased marginally on the week.
 - Demand has far exceeded consensus estimates as re-opening continues.²
 - This demand is despite the Treasury borrowing a higher volume through debt issuance as compared to times past.²
 - While the latest debt sales exceeded Wall St's expectations, we believe it's unlikely to overwhelm the market's appetite.
- Employers added 1.8 million jobs in July, well below the payroll jump of 4.8 million in June.²
 - July's unemployment rate fell to 10.2%.²
 - Even with July's gains, less than half of the 22 mil jobs lost in March/April have been restored.²
- 2nd quarter S&P 500 earnings season is coming to a close as results overall surpassed low expectations.
 - S&P 500 earnings per share fell 34% year-over-year.²
 - Expectations were for a loss of 44%.²
 - We believe cost management contributed to positive surprises while the Tech-tilt of the S&P 500 resulted in a shallower earnings decline than the current environment would suggest.
- President Trump expanded his crackdown on Chinese tech beyond TikTok to include WeChat.²
 - We can't reiterate enough how big of a potential issue we think the WeChat threat poses.
 - WeChat is the go-to app for a billion people for shopping, payments, email, web browsing and all forms of business and personal communications.
 - We believe this could cause China to retaliate with Apple being the most at risk.
 - The order would block all transactions involving WeChat, which could prohibit Apple from distributing WeChat to mobile devices through its app store.
 - China accounts for about 20% of Apple's iPhone sales.²

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² Source: Bloomberg – 8/7/2020

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