

**Last Week's Economic/Market Summary – August 17, 2020**

**Data**

- U.S. equity benchmarks grinded higher across the board.
  - S&P 500 +0.70%, Dow +1.9%, Russell 2000 +0.60%, Nasdaq +0.10%<sup>1</sup>
    - The All-Country World Index was up +1.07%.<sup>1</sup>
  - S&P 500 sub-sectors were mostly positive on the week.
    - Industrials, Energy, & Consumer Discretionary led to the upside.<sup>1</sup>
    - Defensive oriented sectors of Utilities & Real Estate led to the downside.<sup>1</sup>
  - The CBOE Volatility Index (VIX) declined 0.75% last week to end at 22.05.<sup>1</sup>
- US Treasury bonds saw the yield curve spike as longer term yields spiked higher.
  - US 2yr +0.02% at 0.15%, 10yr +0.15% to 0.71%, 30yr +0.21% to 1.45%.<sup>1</sup>
  - Inflation readings came in higher than expected and longer bonds saw rates rise.
- Commodities as an aggregate asset class moved slightly higher last week.
  - WTI Crude advanced over 2%.<sup>1</sup>
  - Gold fell 4.4%.<sup>1</sup>
  - The US Dollar index declined 0.36%.<sup>1</sup>
- In our opinion, U.S. economic data was mixed last week.
  - Unemployment claims came in under expectations and under 1 mil for 1<sup>st</sup> time since March.<sup>1</sup>
  - Measures of inflation (CPI & PPI) came in above expectations.<sup>1</sup>
  - Congress did not reach an agreement on add'l stimulus.<sup>1</sup>
- An index of equities outside the US (FTSE All-World ex-US) was higher by 1.42% & outperformed the US.<sup>1</sup>

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<sup>1</sup> Source: Bloomberg – 8/14/2020

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## Conclusion

- US equity markets moved higher on improving economic data and decreasing Covid cases in the US.
  - S&P 500 +0.70%, Dow +1.9%, Russell 2000 +0.60%, Nasdaq +0.10%
  - The S&P 500 came in within a few points of closing at an all-time high twice.
    - This has happened despite just over 50% of S&P 500 stocks trading above their 200 day moving averages.<sup>2</sup>
  - We believe the bull case for the equity market currently is based mostly (if not fully) on stimulus from governments & global central banks.
    - Long-term this could lead to some interesting changes in how capital markets are viewed.
- S&P 500 sub-sectors were mostly positive last week.
  - Cyclical sectors led to the upside once again this week on the back of add'l gov't stimulus hopes.
  - Yield oriented sectors experienced a reflexive sell-off on the back of rising US interest rates.
    - Despite underperforming this week, the utility sector dividend yield as compared to the 10yr US Treasury yield is at historic highs.<sup>2</sup>
    - Previously, this has led to outperformance by the utility sector.<sup>2</sup>
- When looking at retail, institutional, & foreign investor positioning, sentiment towards US equities is high but subdued as compared to levels seen earlier this year.<sup>2</sup>
  - Interesting to note that institutional sentiment is depressing the reading as retail & foreign flows have been driving returns of late.<sup>2</sup>
  - We believe this is a metric to continue to monitor as domestic institutions tend to drive the markets' directions over intermediate & longer time frames.
- US Treasuries saw yields rise across the board last week.
  - Longer-term maturities led with gains of 0.15% & 0.21% on the 10 and 30yr.<sup>2</sup>
    - We believe this was as a result of monthly measures of inflation coming in higher than expected.
  - While Fed policy tends to steer yields on shorter maturities, expectations for future growth & inflation have historically driven the direction of the longer bonds' rates.
- With China's 10yr gov't bond approaching a 3% yield, the world's second biggest economy has significant relative firepower to cut interest rates and bolster their stock markets.<sup>2</sup>
  - China's CSI 300 index is trading at 13x next year's earnings as compared to 20x on the S&P 500.<sup>2</sup>
- While the Fed is supporting the economy with various stimulus programs, banks could be tightening lending availability to smaller sized firms.
  - 70% of bank senior loan officers surveyed by the Fed said they have tightened lending standards on loans for small firms in the 3<sup>rd</sup> quarter, the highest proportion since late 2008.<sup>2</sup>

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<sup>2</sup> Source: Bloomberg – 8/14/2020

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