

Last Week's Economic/Market Summary – August 24, 2020

Data

- U.S. equity benchmarks ended the week mostly higher, led once more by the tech-heavy Nasdaq.
 - S&P 500 +0.8%, Dow +0.1%, Russell 2000 -1.58%, Nasdaq +2.7%¹
 - The All-Country World Index was up +0.28%.¹
 - S&P 500 sub-sectors were very mixed last week.
 - Technology led to the upside by a wide margin at +3.57%.¹
 - Year-to-date laggards (Financials/Energy) led to the downside with losses over 3.5%.¹
 - The CBOE Volatility Index (VIX) gained 2% to end at 22.54. ¹
- US Treasury bonds saw prices rise and yields go down on the longer end.
 - US 2yr flat at 0.14%, 10yr -0.08% to 0.63%, 30yr -0.11% to 1.34%.¹
 - The rally in Treasuries could be short-lived as the Treasury gears up to sell \$148B soon. ¹
- Commodities as an aggregate asset class moved slightly higher last week.
 - WTI Crude was little changed last week. ¹
 - Gold was flat. ¹
 - The US Dollar index gained 0.11%.¹
- In our opinion, U.S. economic data was mixed last week.
 - Measures of the housing market continue to come in well above expectations. ¹
 - The median home price shot up 8.5% as supply is still suppressed. ¹
 - Jobless claims reversed course and moved back above the 1 million mark. ¹
- An index of equities outside the US (FTSE All-World ex-US) declined 0.31%.¹

¹ Source: Bloomberg – 8/21/2020

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Conclusion

- US equity markets were ended mostly higher last week after a strong start to the week was muted by the release of the latest Federal Reserve meeting minutes.
 - S&P 500 +0.8%, Dow +0.1%, Russell 2000 -1.58%, Nasdaq +2.7%
 - The S&P 500 exceeded the Feb. 19 record high on Tuesday to cap the fastest bear-market recovery in history.²
- S&P 500 sub-sectors were mixed last week.
 - Technology led to the upside by a wide margin as the sector continues to attract new investment despite lofty valuations.
 - Financials & Energy led to the downside with losses of 3.46% & 5.66% respectively.²
 - The Energy sector is now the most under-owned sector in the S&P 500.²
- US Treasuries bounced back from their sell-off of the last 2 weeks as yield sank lower.
 - 2yr flat at 0.14%, 10yr -0.08% to 0.63%, 30yr -0.11% to 1.34%.²
 - We believe weakness over the last couple of weeks was a result of the US Treasury issuing a record \$112B in bonds.
 - In the days ahead, the market will have to take on new auctions in 2, 5, & 7 year Treasuries to the tune of \$148B.²
- Gold was mostly unchanged on the week while silver gained 2.5%.²
 - Interesting to note that these wildly (and incorrectly) touted “safe havens” from equities have been highly correlated to US stocks of late. (aka- moving in the same direction)
 - This bears watching as the precious metals complex will always move to its own drumbeat of economic factors over time.
- The total value of US equities has reached \$34.713 Trillion or 178.9% of US gross domestic product.²
 - In our opinion, over the long-term, stock market returns are determined by 3 factors: interest rates, growth of corporate profitability, & market valuations.
 - Side note: Tesla now has a total company value greater than Walmart.²
 - Tesla sales - \$26 billion Walmart sales - \$542 billion²
 - The total market capitalization (value) of the stock market as a percentage of GDP currently indicates historically high equity valuations.²
 - We believe that despite all the narratives being built by the industry to justify “the need to participate” this is a liquidity fueled bull market with pockets of extreme euphoria.
 - Yes, we are participating...for good reason. “Markets can stay irrational longer than investors can stay solvent.”
 - Yes, we do have a dynamic exit strategy going forward.

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² Source: Bloomberg – 8/21/2020

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