

Last Week's Economic/Market Summary – August 31, 2020

Data

- U.S. equity benchmarks all moved higher on the week.
 - S&P 500 +3.26%, Dow +2.59%, Russell 2000 +1.62%, Nasdaq +3.39%¹
 - The All-Country World Index was up +2.71%.¹
 - S&P 500 sub-sectors were mostly higher last week.
 - Technology & Financials led to the upside with gains over 4.3%.¹
 - Utilities was the only negative sector as long Treasury yields rose.¹
 - The CBOE Volatility Index (VIX) gained almost 2% to end at 22.80.¹
- US Treasury bonds saw the yield curve steepen as the 2yr yield sank.
 - US 2yr -0.02% at 0.13%, 10yr +0.09% to 0.72%, 30yr +0.16% to 1.50%.¹
 - The spread will be driven by the longer maturities as the Fed keeps the 2yr anchored down.
- Commodities as an aggregate asset class moved up 2.35% last week.
 - WTI Crude was +1.37%.¹
 - Gold was up 1.21%.¹
 - The US Dollar index was down 1.03%.¹
- In our opinion, U.S. economic data was mixed last week.
 - Durable goods orders beat expectations on strong demand for vehicles.¹
 - Consumer confidence came in lower than expected.¹
 - Jobless claims stayed above the 1 million mark.¹
- An index of equities outside the US (FTSE All-World ex-US) rose albeit less than domestic markets.¹

¹ Source: Bloomberg – 8/28/2020

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Conclusion

- US equity markets were higher across the board last week as investors seem to continue to find reassurance in the huge injections of stimulus & loose US monetary policy.
 - S&P 500 +3.26%, Dow +2.59%, Russell 2000 +1.62%, Nasdaq +3.39%
 - The S&P 500 is up almost 50% from the lows of March sparked by the Covid outbreak,² even as the pace of the US economic recovery from the pandemic remains uncertain.
 - The small-cap tracking Russell 2000 lagged on the week.
 - The Russell has lagged the Nasdaq by 8% over the last 2 weeks and over 40% in '20.²
 - Interesting to note that the Russell 2000 trades at 1.1x its constituents' sales, which is cheaper than prior to the Covid-19 crash.²
 - Meanwhile, at 5.2x sales, the Nasdaq trades at the most expensive levels since the dot-com days.²
- S&P 500 sub-sectors were almost all higher last week.
 - Technology & Financials led to the upside.
 - Tech continues to benefit from the big getting bigger while Financials seemed to benefit from longer term interest rates rising.
 - Utilities were the lone negative sector on the week.
 - As discussed, and outlined significantly in recent commentary, the yield of the Utility sector over treasuries is at historic highs and the sector carries roughly the same historical volatility as the long duration US treasury bond.²
- US Treasuries saw longer maturities under pressure as their yields rose.
 - The spread between the 2yr yield and 10yr yield increased and we continue to watch this closely.
 - We believe a definitive break higher will be driven by a sell-off in the 10/30yr issues as the Fed has anchored the short-end near 0%.
- In what we believe drove much of the market action last week, Fed chair Powell spoke at the Jackson Hole economic conference last week and seemed to signal a major shift in policy.
 - Jerome Powell said they are in no hurry to update guidance on how long interest rates will stay at zero, following a historic strategy shift to be more tolerant of inflation.²
 - This is the same inflation they have been unable to spark for over a decade despite going to extreme measures.
 - In our opinion, the Fed's shift to let inflation and employment run higher may signal that policy makers will keep interest rates low for years to come, lifting the appeal of non-interest-bearing stores of value such as commodities & precious metals.

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² Source: Bloomberg – 8/28/2020

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