



MARKET MATTERS

MONTHLY INVESTOR UPDATE

August 10, 2020

Executive Summary

- Confirmed COVID-19 cases are increasing globally, led by the U.S., Brazil, and India.
- Vaccine development progress continued, with optimistic projections for January availability.
- U.S. GDP contracted 9.5% (32.9% annualized) in 2Q, but we have already seen improving metrics since April. Increasing COVID-19 cases and the end of a supplemental \$600 weekly unemployment payment could negatively impact the recovery.
- President Trump signed executive orders to provide assistance in light of disagreement in Congress. However, there are presidential limits on legislative matters.
- Equity prices in July reflected market optimism, but record high gold prices reflected fear.
- Growth continued to outperform value. Large cap once again outperformed small cap.

COVID-19 Update: Case Regress, Vaccine Progress

Confirmed COVID-19 cases are increasing globally, reaching 19 million cumulative confirmed positive cases on August 6. The U.S. leads the cumulative tally with over 26% of confirmed cases, followed by Brazil and India with 15.4% and 10.5% of confirmed cases, respectively. The global rate of new daily infections has also increased to what appeared to be a new high on July 31 with 291,000 new cases in a single day, but the daily rate has since trended off that peak.¹

Unfortunately, the increase in infections isn't the only difficult news. Reported widespread testing backlogs and delays render contact tracing virtually ineffective if test results are not received back within 24 to 48 hours. A joint survey conducted by Northeastern University, Harvard University, Rutgers University, and Northwestern University, found that the national mean waiting time to receive a COVID-19 test result in the U.S. was 4.1 days, which most health experts believe is not quick enough help stop the spread of the fast moving, infectious disease.²

Given the ongoing difficulties surrounding the spread of the coronavirus and testing, the hope for a vaccine is intensifying and remains a potential bright spot. Worldwide, there are over 135 potential COVID-19 vaccines in various stages of clinical testing. Twenty-eight vaccine candidates are in human trials, while six are in the final phase of large-scale efficacy testing.³ Dr. Anthony Fauci, Director of the National Institute of Allergy and Infectious Disease, remains

¹ "Coronavirus Resource Center," Johns Hopkins University & Medicine. Visited August 5, 2020.

² "Failing the test: Waiting times for COVID diagnostic tests across the United States," The COVID-19 Consortium for Understanding the Public's Policy Preferences Across States. Visited August 5, 2020.

³ Coronavirus Vaccine Tracker," *The New York Times*. Visited August 6, 2020.

cautiously optimistic that a coronavirus vaccine could be ready for distribution by the end of 2020.⁴

Economic Update: End of Supplemental Assistance

The downward trend in unemployment continued in July with the unemployment rate declining from 14.7% in April to 10.2% in July; weekly first-time unemployment claims falling to the lowest level since March; and continuing claims falling to the lowest level since April. However, 1.2 million new weekly claims and 16.1 million continuing claims as of August 1 are still historically high. Additionally, individuals who filed last week will not receive the same benefit as others in weeks prior due to the expiration of the Federal Pandemic Unemployment Compensation program, which discontinued its weekly supplemental \$600 payment on July 31, 2020.⁵

As of Sunday, August 9, the U.S. Congress had not yet agreed on a pandemic aid package, including an extension of unemployment benefits. President Donald Trump signed four executive orders on Saturday to provide some relief. However, there are presidential limits on legislative matters, so congressional action will still be necessary.⁶

The U.S. economy is estimated to have declined by 9.5% (32.9% on an annualized basis) in the second quarter of 2020 – the worst contraction since modern GDP measurements began in 1947. The downturn appeared to be driven by a decline in personal consumption. While that GDP number sounds scary, it is important to remember the stark reading was already expected and that the U.S. economy has already seen major improvements since April. Improvements could continue for the rest of the year, especially if the spread of the pandemic can be suppressed as has been done in other countries.

Market Index Trailing Total Returns				
as of 7/31/2020	MTD	YTD	1 Year	3 Year
S&P 500	5.64%	2.38%	11.96%	12.01%
Russell 2000	2.77%	-10.57%	-4.59%	2.69%
MSCI EAFE USD	2.33%	-9.28%	-1.67%	0.63%
MSCI Emerging Markets USD	8.94%	-1.72%	6.55%	2.84%
Bloomberg Barclays U.S. Agg Bond	1.49%	7.72%	10.12%	5.69%
Bloomberg Barclays U.S. Corp High Yield	4.69%	0.71%	4.14%	4.54%
Bloomberg Barclays Global Agg Bond USD	4.44%	5.08%	5.94%	3.10%

Periods longer than a year are annualized. Returns include dividends or interest. Source: Morningstar.

⁴ "Fauci Says He's 'Optimistic' Americans Will Get Coronavirus Vaccine Next Year," NPR. July 31, 2020.

⁵ "Drop in U.S. Jobless Claims Offers Hope for Battered Economy," *Bloomberg*. August 6, 2020.

⁶ "Trump's pandemic relief orders are limited in scope," *Associated Press*. August 9, 2020.

Market Update: Tech and Gold at Record Highs

Returns for the month of July were once again positive across all major asset classes. Emerging market equities led the way as Chinese markets surged early in July, with the MSCI Emerging Markets Index returning 8.9%. In the developed markets, the U.S. continued to lead, with the S&P 500 returning 5.6%.⁷ U.S. markets seemed to largely ignore increasing COVID-19 cases, uncertainty around unemployment benefit extensions, geopolitical tensions (particularly between the U.S. and China), and a record decline in GDP. With July's performance, the S&P 500 index moved into positive territory for the year.

Growth continued to outperform value in July, while large-cap stocks outperformed small-cap stocks. A primary driver of large-cap growth returns (and continuing stretched valuations) has been the "FANMAG" stocks – Facebook, Amazon, Netflix, Microsoft, Apple, and Google (owned by Alphabet). These six companies have grown from about 18% of the S&P 500 at the beginning of the year to over 25% at the end of July. This performance is not a new story, but these companies do continue to benefit from stay-at-home orders and continuing consumer fears of COVID-19.⁸

Consistent with risk assets performing well in July, high-yield bonds (as measured by the Barclays U.S. Corp High Yield Index) returned 4.7%, also ending the month with a positive year-to-date return.

Despite the strong returns of equities in July, gold prices (a traditional "safe haven") have climbed to record highs, and the 10-Year Treasury rate hit a record low, both signs that investors may be growing weary.

We are here to support you and navigate these times of uncertainty together. Knowledge is power, and we're committed to equipping you and your financial professional with the tools and information you need to weather this storm. We are continuing to watch market developments and are here to assist you with evaluating and understanding these economic changes. Please contact your financial professional to discuss your portfolio or should you have any questions or concerns.

⁷ "Review of markets over July 2020," JP Morgan Asset Management. August 3, 2020.

⁸ "Market Perspective August 2020," AIG. Viewed August 6, 2020.

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