LCP LAKEVIEW CAPITAL PARTNERS

Week in Review

June 29, 2020

LAST WEEK IN REVIEW

Last week, stocks gave back the previous week's gains, as worries over a resurgence in the coronavirus offset enthusiasm over some positive economic data. Growth stocks handily outperformed value shares, and the technology-heavy Nasdaq Composite Index fared best relative to other benchmarks. The declines pushed the S&P 500 Index back into correction territory (i.e., down more than 10% from its February peak), according to a broadly used definition.

The overall market swung between gains and losses for much of the week, but bank stocks were particularly volatile. On Thursday, financials rallied on news that the Federal Reserve was easing restrictions put in place following the financial crisis of 2008–2009, including allowing certain types of riskier investments and lowering some margin requirements. Financials fell back sharply Friday morning, however, on the previous evening's news that the Fed was planning to restrict banks' ability to pay out profits to shareholders through dividends and share repurchases.

The rapid increase in confirmed new coronavirus cases, particularly across the South and in California, weighed heavily on sentiment throughout the week. While trends remained positive in the New York region and other areas that had been hard hit earlier in the pandemic, the national total of daily new confirmed infections reached a record high on Wednesday. Although some of the rises appeared due to increased testing, hospitalizations also increased. On Wednesday, Houston officials reported that over 97% of the city's intensive care unit beds were occupied. As Scooby would say, "Rut Roh Raggy."

Whether the resurgence would lead to renewed wholesale lockdowns appeared unclear, but it already showed signs of having a modest economic impact. The scheduled July 17 reopening of Disneyland in

California was pushed back on Wednesday, while employees at Florida's Disney World petitioned for a similar delay. On Thursday, Texas's governor announced a pause in the easing of further lockdown rules in the state, and then both Florida and Texas ordered the partial closure of bars on Friday. Apple also announced temporary store closures in the two states.

The political backdrop seemed largely supportive through much of the week and may have helped cushion the declines. On Monday, President Donald Trump told a reporter that another "very generous" stimulus bill would be coming. Later, White House Economic Advisor Larry Kudlow told Fox News that the plan might include another round of direct payments to individuals, jacking up the budget deficit by even more than already projected.

U.S. - MARKETS & ECONOMY – As of close Friday June 26, 2020

The week's economic data may have also helped shore up sentiment. IHS Markit's gauges of both current service and manufacturing sector activity surprised modestly on the upside, and May durable goods orders, reported by the Commerce Department, beat expectations by a wider margin. Existing home sales in May fell short of estimates, but new home sales came in well above consensus. Labor market data were similarly mixed. Weekly jobless claims declined by less than expected, but continuing claims fell more than anticipated and moved below 20 million for the first time since late April.

Index	Friday's Close	Week's Change	% Change YTD
DJIA	25,015.55	-855.91	-12.34%
S&P 500	3009.06	-88.87	-6.86%
Nasdaq Composite	9757.22	-188.90	8.74%
S&P MidCap 400	1721.85	-68.11	-16.54%
Russell 2000	1382.76	-38.14	-17.12%

Source: Bloomberg. This chart is for illustrative purposes only and does not represent the performance of any specific security. **Past performance cannot guarantee future results.**

US YIELDS & BONDS

Coronavirus fears appeared to push the yield on the benchmark 10-year Treasury note down to around 0.64%, its lowest level since mid-May. (Bond prices and yields move in opposite directions.) The broad municipal market posted modestly positive returns over most of the week but underperformed Treasuries. Traders I spoke with noted that, despite diminished trading activity given the low yield environment, technical pressures from robust demand and muted supply continued to buoy the market.

Virus headlines weighed on the investment-grade corporate sector, and credit spreads—the extra yield offered over Treasuries and an inverse measure of the sector's relative appeal—drifted wider with riskier market segments underperforming. The firm's traders noted a lighter volume of trades overall, and new issuance for the week was at the low end of expectations.

Meanwhile, coronavirus fears caused several industry segments, including energy and airlines, to trade lower and underperform the broad high yield market. A sharp decline in crude oil prices contributed to the weakness, and even energy sector fallen angels—companies that have recently lost investment-grade status—came under pressure after a period of intense interest. Positive flows to the asset class continued; however, with high yield funds not reporting an outflow since late March.

US TREASURY MARKETS AND WEEKLY YIELD CHANGE – As of close Friday, June 26, 2020

3 Mth -0.01 bps to 0.14%

2-yr: -0.02 bps to 0.17%

5-yr: -0.03 bps to 0.30%

10-yr: -0.05 bps to 0.65%

30-yr: -0.09 bps to 1.37%

SOURCE: BLOOMBERG. YIELDS ARE FOR ILLUSTRATIVE PURPOSES ONLY AND DOES NOT REPRESENT THE PERFORMANCE OF ANY SPECIFIC SECURITY. YIELD CHANGES ARE OF ONE WEEK. PAST PERFORMANCE CANNOT GUARANTEE FUTURE RESULTS.

INTERESTING NEWS OVERSEAS

South African stocks were volatile around Wednesday's release of an emergency government budget, and the FTSE/JSE All Share Index ended the week down almost 1%. The country's projections indicate that its debt could be more than 100% of gross domestic product (GDP) by 2025, one of the largest fiscal deficits in the world (and I thought the US debt was terrible). South Africa's elevated debt levels led to higher yields on its government bonds and downward pressure on its currency, the rand, early in the week.

The emergency budget was grim, forecasting that the budget deficit would more than double to 15% of GDP amid surging government borrowing, although it did not contain any major surprises. The South Africa government plans to present another adjusted budget in October. The country is in talks with the International Monetary Fund for loans to provide temporary relief.

China's large-cap CSI 300 Index and benchmark Shanghai Composite Index rose 1.0% and 0.4%, respectively, in a week containing a few significant economic readings. On Thursday, China's government said that it would increase the number of sectors open to foreign investment starting July 23, mostly via shorter "negative lists." The move was viewed as part of Beijing's efforts to bolster overseas investment to support an economy battered by the coronavirus pandemic. Previously, the number of sectors listed as off-limits to foreign investors was lowered to 33 from 40.

China's sovereign 10-year bond yield was broadly flat for the week as investors mostly stayed on the sidelines waiting for clarity regarding further monetary measures. China is expected to see substantial foreign investor inflows into its bond market, driven by historically wide yield spreads between Chinese and US bonds. The yield spread between the US and Chinese 10-year government bonds recently increased to 215 basis points, its widest gap in the past decade.

The People's Bank of China (PBoC) left its loan prime rate (LPR), which serves as a reference rate for new local currency bank loans in the country, on hold for the second month at its latest policy meeting. Investors awaited signs of other easing measures, including a possible reduction in the reserve requirement ratio (RRR). However, China has resorted to other means of freeing capital besides cutting interest rates. Beijing has reportedly urged commercial banks to help smaller businesses and mortgage holders weather the coronavirus downturn by sacrificing RMB 1.5 trillion, or roughly USD 212 billion, of profits this year. Banks have also been asked to offer lower lending rates, defer loan repayments, and cut fees, according to reports. Analysts regard these easing measures as roughly equivalent to a 40-basis point cut in LPR.

Lastly, in Europe, European shares fell amid trepidation about a resurgence of coronavirus infections that could halt an economic recovery and a flare-up in trade tensions between the US and Europe. The pan-European STOXX Europe 600 Index ended the week 1.89% lower, with major European indexes mixed. Germany's DAX Index declined 2.09%, while Italy's FTSE MIB Index slipped 2.33%, and France's CAC-40 Index slid 1.34%. The UK's FTSE 100 Index fell by 0.87%.

Upbeat economic data provided signs that the coronavirus-induced slump in the eurozone may be bottoming out, reviving hopes of a V-shaped recovery. The flash IHS Markit Eurozone Composite Purchasing Managers' Index (PMI) surged to 47.5 in June from 31.9 in May, the second-biggest jump in the survey's history. Although the PMI reached its highest level since February, the data still point to a drop in business output. German and French business confidence recovered at record rates in June and more than expected by most economists. However, they were still well below pre-pandemic levels, two national surveys showed.

However, European Central Bank Chief Economist Philip Lane warned in a speech that any substantial improvement in near-term indicators would "not necessarily be a good guide to the speed and robustness of the recovery." He added that it might take a sustained period of improving economic and public health conditions before confidence is fully restored.

THE WEEK AHEAD

In the US, Federal Reserve Chair Jerome Powell's testimony before the Committee on Financial Services and the FOMC minutes will be keenly watched in the coming week amid hopes that they might clarify policymakers' views on the monetary policy path. Early this month, the Federal Reserve suggested interest rates will remain at current levels through 2022 as the economy recovers from its deepest economic crisis ever due to the coronavirus crisis.

On the economic data front, the US jobs report for June is expected to show a payroll increase of 3.0 million, following a 2.5 million rise in May and a record 20.5 million slump in April; while the unemployment rate is seen falling to 12.3 percent, moving further away from an all-time high of 14.7 percent hit in April. Other notable publications are the ISM Manufacturing PMI survey, foreign trade balance, factory orders, construction spending, ADP employment change, pending home sales, Case-Shiller home prices, Chicago PMI, Dallas Fed Manufacturing Index, and the final reading of Markit Manufacturing PMI.

US stock markets will be closed on Friday for Independence Day.

Call us at LCP if you have any questions. Have a great week, and Happy 4th of July.

Stephen Colavito, Jr.
Managing Director
Chief Market Strategist

Lakeview Capital Partners, LLC
1201 Peachtree Street NE
Suite 1850
Atlanta, GA 30361

(404) 418-7776 (office)
(404) 313-1388 (mobile)