

Weekly Snapshot 8/17/20

Market Review: Week Ending 8/14

Stocks flirted with hitting pre-Covid all-time highs last week as the S&P 500 Index finished just shy at 3372 (+0.6%), recovering all of the 34% drop from February to March 23rd¹. Despite signs of exhaustion, stocks tied to a successful reopening outperformed last week (Energy, Industrials and Travel-related companies) while those that have done well through the crisis (Healthcare and stay-at-home Technology) trailed¹. News of a Russian vaccine (though its safety and efficacy profiles are still unknown) and hotter-than-expected PPI and CPI reports led to a large jump in bond yields, as the 10-year US Treasury bond yield moved from 0.55% to 0.71% to end the week¹. Emboldened by the Federal Reserve's near \$7T balance sheet (up 85% y/y)¹, investors continue to embrace only the positive side of each report, the latest being the narrative on the virus itself. Rather than fretting over the fact that a record number deaths (1500) occurred in one day this past week and that for the first time since the outbreak the number of daily tests have declined, investors have embraced the recent decline of new cases reported daily as a sign that the economy can safely reopen. Perhaps that is true, but the cancelation of NCAA football this fall by two power conferences and the ongoing challenges with the back-to-school season is a stark reminder that Americans are unlikely to experience "normal" for some time. Similarly, the impasse in Congress over the extension of additional Covid-relief funds led a recess where negotiations won't even occur until September, seems to be ignored by investors despite talk of the impact of what this "fiscal cliff" could mean for consumer confidence and spending. Finally, July's Retail Sales report was another example of investors viewing data through rose-colored lenses. July's 1.2% m/m gain missed expectations of +2.3% and marked a clear deceleration in momentum from the prior two months¹. But stripping away the impact of auto sales, the comparison was more favorable from the prior month and investors seemed satisfied with the report which reflected the third consecutive monthly gains which brought the level spending back to pre-Covid levels. Additional insights on the consumer will come this week with the Q2 earnings reports from Home Depot, Target, TJX and most retailers. Through the close Friday, year to date results for the major indices are as follows: S&P 500 5.7%, Russell 2000 -4.6%, MSCI EAFE -5.2% and Bloomberg Barclays Aggregate Bond 6.9%².

What We Are Watching in the Week Ahead:

- **US/China Tensions-** President Trump issued an executive order barring U.S. citizens from transactions with TikTok, a popular social media app in the U.S., whose owners are based in China. The order takes effect in less than 40 days. This is the latest in the escalating tensions with China that at one stage, dominated the attention of investors worried about trade disruptions with the world's second largest economy. With nearly a quarter of the S&P 500 comprised of 5 US tech giants that all depend on China to varying degrees for continued growth, this "Tech Cold War" with China bears watching for possible retaliation from China as any impact to these important market leaders could be damaging to the broader market
- **Stimulus Talk:** Investors are counting on an extension of Federal unemployment insurance as 30m people were receiving benefits that expired on July 31st. A long-standing breakdown in talks which leads to more than a temporary gap in replacing incomes lost to Covid-related unemployment is sure to be met with selling given the impact it would have on consumer confidence and spending, as the massive stimulus efforts are largely credited with sustaining the current level of equities. President Trump has signed four Executive Orders to bypass Congress to provide relief to Americans facing high unemployment and a very uncertain back-to-school period. The Orders involved extending Federal Unemployment benefits (\$400), along with measures designed to assist renters, student loan borrowers and workers with a temporary elimination of employee payroll taxes. It is still unclear when, or if these benefits will be implemented.

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References: 1. FactSet 8/17/20, 2. Morningstar Direct 8/17/20

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