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Market Down & Dirty

Last Week's Economic/Market Summary – July 27, 2020

Data

- U.S. equity benchmarks finished the week in negative territory last week.
    - S&P 500 -0.28%, Dow -0.80%, Russell 2000 -0.40%, Nasdaq -1.50%[1]
        - The All-Country World Index was flat at -0.03%.[1]
    - S&P 500 sub-sectors were extremely mixed on the week.
        - Energy, Financials, & Consumer Discretionary led to the upside with gains over 1%.[1]
        - Technology led to the downside with a loss of -1.53%.[1]
    - The CBOE Volatility Index (VIX) was mostly flat and ended at 25.54. [1]

- US Treasury bonds rallied slightly as yields fell further.
    - US 2yr flat at 0.15%, 10yr -0.04% to 0.59%, 30yr -0.10% to 1.23%.[1]
    - The bond market continues to tell a slightly different story than equity markets at large.

- Commodities as an aggregate asset class moved higher last week.
    - WTI Crude was up over 1%.[1]
    - Gold rose 5.02%.[1]
    - The US Dollar index sank 1.66%.[1]

- In our opinion, U.S. economic data was mixed last week.
    - Initial jobless claims came in over expectations; these are over 1 mil for the 18th straight week. [1]
    - New home sales came in stronger than expected. [1]
    - Eurozone PMI data exceeded expectations while US figures lagged consensus estimates. [1]

- An index of equities outside the US (MSCI EFA) was positive last week & outperformed domestic indices. [1]

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[1] Source: Bloomberg – 7/24/2020

Conclusion

- US equity markets ended a 3-week streak of gains with losses across the board.
  - Increasing US-China tensions and disappointing big Technology company earnings were the key news drivers last week.
  - S&P 500 -0.28%, Dow -0.80%, Russell 2000 -0.40%, Nasdaq -1.50%
  - The Nasdaq was the worst performer last week with a loss of 1.5%.[2]
    - Semi-conductors and other equipment makers led this sector's losses.[2]
- S&P 500 sub-sectors were mixed last week.
  - Energy, the year-to-date laggard in sector performance, led to the upside last week while the YTD winner by a wide margin (Tech) led to the downside. [2]
    - While this price action could be profit taking, it deserves continued attention.
    - Any rotation out of Tech into other sectors could have broad implications for overall equity index performance.
- Any weakness in the "Big Tech" names will weigh on the overall indices more-so than in the past.
    - These large tech co's now account for 38% of the S&P 500's weighting. [2]
    - This is the largest sector concentration in the broader index since Energy accounted for 29% of the S&P 500 in December of 1980. [2]
- Equities outside of the US were slightly positive last week.
  - The Eurozone member countries reached a stimulus deal that will attempt to boost economic activity in the area by issuing bonds. [2]
  - Emerging Markets gains last week despite profit taking from Chinese shares. [2]
  - Continued weakness in the US Dollar could give foreign traded names a tailwind in relative performance vs. US equities.
- 25% of S&P 500 companies have reported earnings thus far. [2]
  - 82% have beat earnings per shares expectations while 69% have beaten revenue estimates. [2]
    - Year over year figures, however, are lower by 16.4% and 8.5% respectively. [2]
  - The heart of earnings season comes this week and we believe all eyes will be on forward guidance from these co's such as Amazon, Apple, Facebook & Google.
- The current $600/week gov't unemployment subsidy expires this week. [2]
  - With 30 million American's on some sort of gov't unemployment benefit program, we believe this program ending could pose risks to the economic recovery.
    - Consumer spending is critical to the US economy and this could put a dent into many American's spending ability.

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[2] Source: Bloomberg – 7/24/2020