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Market Down & Dirty

Last Week's Economic/Market Summary – August 10, 2020

Data

- U.S. equity benchmarks finished the week higher across the board last week.
    - S&P 500 +2.5%, Dow +3.9%, Russell 2000 +6.0%, Nasdaq +2.5%[1]
        - The All-Country World Index was up +2.03%.[1]
    - S&P 500 sub-sectors were all positive on the week.
        - Cyclical sectors of Industrials & Financials led to the upside. [1]
        - Defensive oriented sectors of Staples, Utilities, & Real Estate had the smallest gains. [1]
    - The CBOE Volatility Index (VIX) dropped 9.2% last week to end at 22.21. [1]

- US Treasury bonds took a breather from their recent run up as yields rose.
    - US 2yr +0.02% at 0.13%, 10yr +0.04% to 0.56%, 30yr +0.04% to 1.23%.[1]
    - The US Treasury recently expanded its plans for borrowing. [1]

- Commodities as an aggregate asset class moved higher last week.
    - WTI Crude gained 2%.[1]
    - Gold rallied 3%.[1]
    - The US Dollar index was flat. [1]

- In our opinion, U.S. economic data was mixed last week.
    - July non-farm payrolls showed a recovering job market but at a slower pace. [1]
    - Measures of US manufacturing & services exceeded expectations. [1]
    - Congress failed to reach a deal on add'l economic relief. [1]

- An index of equities outside the US (FTSE All-World ex-US) was higher by over 2%.[1]

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[1] Source: Bloomberg – 8/7/2020

Conclusion

- US equity markets were in the green last week as all major benchmarks grinded higher.
  - S&P 500 +2.5%, Dow +3.9%, Russell 2000 +6.0%, Nasdaq +2.5%
    - In our opinion, the small-cap tracking Russell 2000 leading to the upside could be a positive development for the health of equity markets if this trend continues.
  - Interesting to note that compared to past market recoveries, the current bounce-back exceeds every historical comparison in speed & amount.[2]
- S&P 500 sub-sectors were all up last week.
  - Interesting price action as reflationary/cyclical sectors led to the upside.
    - Industrials +4.74%, Financials +3.37%, Energy +3.19%.[2]
    - While this could be helpful to markets finding new footing to move higher, we believe at present time this is simply investors taking profits from Tech and reallocating.
- US Treasuries took a breather from their epic run higher as yield increased marginally on the week.
  - Demand has far exceeded consensus estimates as re-opening continues. [2]
  - This demand is despite the Treasury borrowing a higher volume through debt issuance as compared to times past. [2]
  - While the latest debt sales exceeded Wall St's expectations, we believe it's unlikely to overwhelm the market's appetite.
- Employers added 1.8 million jobs in July, well below the payroll jump of 4.8 million in June. [2]
  - July's unemployment rate fell to 10.2%.[2]
  - Even with July's gains, less than half of the 22 mil jobs lost in March/April have been restored. [2]
- 2nd quarter S&P 500 earnings season is coming to a close as results overall surpassed low expectations.
  - S&P 500 earnings per share fell 34% year-over-year. [2]
  - Expectations were for a loss of 44%.[2]
  - We believe cost management contributed to positive surprises while the Tech-tilt of the S&P 500 resulted in a shallower earnings decline than the current environment would suggest.
- President Trump expanded his crackdown on Chinese tech beyond TikTok to include WeChat. [2]
  - We can't reiterate enough how big of a potential issue we think the WeChat threat poses.
    - WeChat is the go-to app for a billion people for shopping, payments, email, web browsing and all forms of business and personal communications.
  - We believe this could cause China to retaliate with Apple being the most at risk.
  - The order would block all transactions involving WeChat, which could prohibit Apple from distributing WeChat to mobile devices through its app store.
    - China accounts for about 20% of Apple's iPhone sales. [2]

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[2] Source: Bloomberg – 8/7/2020