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Market Down & Dirty

Last Week's Economic/Market Summary – August 24, 2020

Data

- U.S. equity benchmarks ended the week mostly higher, led once more by the tech-heavy Nasdaq.
  - S&P 500 +0.8%, Dow +0.1%, Russell 2000 -1.58%, Nasdaq +2.7%[1]
    - The All-Country World Index was up +0.28%.[1]
  - S&P 500 sub-sectors were very mixed last week.
    - Technology led to the upside by a wide margin at +3.57%.[1]
    - Year-to-date laggards (Financials/Energy) led to the downside with losses over 3.5%.[1]
  - The CBOE Volatility Index (VIX) gained 2% to end at 22.54. [1]

- US Treasury bonds saw prices rise and yields go down on the longer end.
  - US 2yr flat at 0.14%, 10yr -0.08% to 0.63%, 30yr -0.11% to 1.34%.[1]
  - The rally in Treasuries could be short-lived as the Treasury gears up to sell $148B soon. [1]

- Commodities as an aggregate asset class moved slightly higher last week.
  - WTI Crude was little changed last week. [1]
  - Gold was flat. [1]
  - The US Dollar index gained 0.11%.[1]

- In our opinion, U.S. economic data was mixed last week.
  - Measures of the housing market continue to come in well above expectations. [1]
  - The median home price shot up 8.5% as supply is still suppressed. [1]
  - Jobless claims reversed course and moved back above the 1 million mark. [1]

- An index of equities outside the US (FTSE All-World ex-US) declined 0.31%.[1]

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[1] Source: Bloomberg – 8/21/2020

Conclusion

- US equity markets were ended mostly higher last week after a strong start to the week was muted by the release of the latest Federal Reserve meeting minutes.
  - S&P 500 +0.8%, Dow +0.1%, Russell 2000 -1.58%, Nasdaq +2.7%
  - The S&P 500 exceeded the Feb. 19 record high on Tuesday to cap the fastest bear-market recovery in history.[2]
- S&P 500 sub-sectors were mixed last week.
  - Technology led to the upside by a wide margin as the sector continues to attract new investment despite lofty valuations.
  - Financials & Energy led to the downside with losses of 3.46% & 5.66% respectively.[2]
    - The Energy sector is now the most under-owned sector in the S&P 500. [2]
- US Treasuries bounced back from their sell-off of the last 2 weeks as yield sank lower.
  - 2yr flat at 0.14%, 10yr -0.08% to 0.63%, 30yr -0.11% to 1.34%.[2]
  - We believe weakness over the last couple of weeks was a result of the US Treasury issuing a record $112B in bonds.
  - In the days ahead, the market will have to take on new auctions in 2, 5, & 7 year Treasuries to the tune of $148B. [2]
- Gold was mostly unchanged on the week while silver gained 2.5%.[2]
  - Interesting to note that these wildly (and incorrectly) touted "safe havens" from equities have been highly correlated to US stocks of late. (aka- moving in the same direction)
    - This bears watching as the precious metals complex will always move to its own drumbeat of economic factors over time.
- The total value of US equities has reached $34.713 Trillion or 178.9% of US gross domestic product. [2]
  - In our opinion, over the long-term, stock market returns are determined by 3 factors: interest rates, growth of corporate profitability, & market valuations.
    - Side note: Tesla now has a total company value greater than Walmart. [2]
      - Tesla sales - $26 billion   Walmart sales - $542 billion[2]
  - The total market capitalization (value) of the stock market as a percentage of GDP currently indicates historically high equity valuations. [2]
  - We believe that despite all the narratives being built by the industry to justify "the need to participate" this is a liquidity fueled bull market with pockets of extreme euphoria.
    - Yes, we are participating…for good reason. "Markets can stay irrational longer than investors can stay solvent."
    - Yes, we do have a dynamic exit strategy going forward.

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[2] Source: Bloomberg – 8/21/2020