MONTHLY MARKET UPDATE
August 2020

Global stocks rose for a fifth consecutive month in August, led by the S&P 500 +7.2% return (more like what you'd expect in a full calendar year), ranking as the 5th best August on record since 1930 and culminating the best five month stretch for the S&P 500 since August 1938. International stocks (+5.1%), U.S. small caps (+5.5%), and emerging markets (+2.2%) produced very nice results as well. The S&P hit new record highs and did so with record breaking consistency finishing the month with a streak of seven consecutive record high closes. Technology and consumer stocks led markets while interest rate sensitive utilities and REITs lagged. Risk markets overall were undeterred by stalled stimulus talks, CoVid-19 hotspots, social unrest, and extended valuations opting instead for encouraging central bank dovishness, massive liquidity, recovering economic activity, and ultra-low interest rates. Bond markets also moved toward a more reflationary stance in August. The curve slope (10yr-2yr and 10yr-3mo) steepened from approximately 0.45% to 0.60% while 10yr yields moved from 0.55% to 0.72%. Commodities rose across the board while the U.S. dollar fell for a fifth consecutive month.

Market Anecdotes

- Not only did August culminate a spectacular five month return of 35%, but it also tallied the highest level of insider selling (approximately $5.3b) since November 2015.
- August's consistency was also remarkable. Bespoke noted the S&P 500 traded higher 17 of 20 trading days in August (81% hit rate) which is the highest monthly winning percentage since SPY began trading in 1993. Only six times have we seen a winning percentage over 75%.
- Top heavy indices? At month end, the top 1% of stocks make up 47.8% of NASDAQ, 33.5% of R1000G, 22.7% of S&P 500, and only 5.9% of the Russell 2000.
- S&P 500 equal weight vs S&P cap weight YTD performance stands at its second largest discrepancy (>10%) since 1990, with 1998 being the only year more pronounced. The ten largest stocks have averaged +27% while the smallest 400 averaged -2.0%.
- Equity market ETFs in August managed a moderate $17.9b in inflows but of note is that the rolling 3-month sum of flows just shifted to its first positive number since January.
- The sentiment picture is mixed with the 50dma CBOE put/call ratio reaching its lowest level since 2000 while AAII and consumer confidence reports suggest a far less bullish outlook.
- Earnings ended the dismal second quarter with a 37% decline in earnings. However, both the percentage of and magnitude of positive surprises set all-time record highs since FactSet began recording the data series back in 2008. Q3 estimates are being revised higher as well.
- BCA noted the transports to utilities ratio moved notably higher in August, historically a decent signal for cyclicals relative to defensives and higher nominal bond yields on the back of an improving economic outlook and fading deflationary concerns.
- The Bloomberg U.S. Dollar Index fell for a fifth consecutive month in August, ending the month at its lowest level since May of 2018.
- August saw a notable yield curve steepening with the 2yr/10yr moving from 0.41% to 0.60% and the 3mo/10yr from 0.43% to 0.64%, echoing the reflationary theme of equity markets.
- The Fed and Jerome Powell fell a little short of a 'full Draghi' at August's annual Jackson Hole symposium but were very dovish nonetheless by detailing their 'symmetric inflation' approach to guide policy looking forward. Risk markets appreciated the tone.
- Liquidity please? Global central bank balance sheets (Fed, BoJ, ECB, PBOC) are growing 33% YoY, mostly by the BoJ and ECB, coming in second

historically (in aggregate) only to the GFC in 08/09. Simultaneously, U.S. money supply (M2) is growing at 23%, far in excess of the GFC.

- While DC has yet to deliver a follow on fiscal support deal, consumers are spending what they've saved with savings rate falling from 33% to 19% and an estimated $1t of stimulus yet to be spent over the next 12 months—a likely reason markets haven't panicked just yet.
- With conventions done and 2 months to the election, the Biden/Trump spread in the betting market odds (Predictit) has compressed to its narrowest level since June 8th ($0.56 vs $0.47).
- Bespoke's Matrix of Economic Indicators moving from a -34 reading on 3/20 to a +27 reading in August best illustrates the steepest crash of economic activity perhaps in US history was followed by a summer bounce back that may be just as extraordinary—both record readings.
- High frequency activity indicators haven't made material improvement over the past several weeks. Q3 GDP (QoQ) models we monitor include Bespoke 28.2%, Strategas (25%) NY Fed WEI 17%, and Atlanta Fed GDP Now 25.6%. 2020 GDP is forecasted in the -3% to -6% range.
- Clear signs of corporate and consumer distress are just beginning to emerge. New Generation Research reported a record 45 large company (>$1b in assets) bankruptcy filings in August. Mortgage delinquencies showing extremely high delinquencies (8%) with categorically low foreclosure rates of 0.03% (Q2) due to COVID foreclosure moratoriums.

Economic Release Highlights

- 1.371mm jobs created in August beat expectations with unemployment rates falling to 8.4% (U3) and 14.2% (U6). However, the number of permanent job losses increased again, and we are only halfway back to the 152mm payroll figure registered pre-CoVid-19 back in February.
- August ISM manufacturing index rose sharply and handily beat expectations (56.0a vs 54.5e). The ISM non-manufacturing of 56.9 and ISM composite of 56.8 were encouraging as well.
- The final U.S. August PMI manufacturing read was revised downward slightly from 53.6 to 53.1. The global August manufacturing PMI increased 1.2pts to 51.8, a second straight month of expansion and fourth consecutive month of improvement.
- July durable goods orders of 11.2% MoM crushed consensus of 4.3% and added to May and June's recovery trajectory.
- After sinking sharply in July to 91.7, August's consumer confidence reading declined further and fell far short of expectations (84.8 vs 93.0). UofM consumer sentiment came in slightly higher than expected at 74.1 vs a 72.8 forecast.
- August Housing Market Index (homebuilder sentiment) tied a record high reading of 78, easily surpassing expectations for a 74. Starts (1.496mm vs 1.24mm) and permits (1.495mm vs 1.32mm) blew the doors off. This was the best building permits number since January.
- Existing home sales (5.86mm vs 5.4mm), new home sales (901k vs 774k), and pending home sales (5.9% vs 1.5%) all grew well in excess of consensus expectations. Existing home sales increased 24.7% MoM while new home sales beat estimates for a third straight month.

Positioning

The transition from an 'income replacement-driven' recovery to organic growth recovery moved forward in August with economic data showing clear signs of rebound while overall consumer and business sentiment and activity remained somewhat in a CoVid cloud of uncertainty. Given the sharp rally, some equity market consolidation should be expected given the uncertainty surrounding the second half of the CoVid recovery, looming U.S.-Sino tensions, and important POTUS/Senate elections in November just now becoming visible to markets. Value oriented sectors including industrials, materials, and perhaps financials have become more interesting from a cyclical perspective which warrants removing a U.S. (tech, healthcare) bias toward more of a neutral position. We continue to believe the bias for rates is to the upside over the next 18 months with growth recovery, input costs, and Fed policy all feeding into that view. We continue to see real risks in corporate credit and securitized debt (CMBS, ABS, RMBS) looking forward.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	28430	7.92	12.63	1.30	10.27	11.58
NASDAQ	11775	9.70	24.34	32.07	49.33	23.63
S&P 500	3500	7.19	15.48	9.74	21.94	14.52
Russell 1000 Growth		10.32	23.98	30.47	44.34	24.18
Russell 1000 Value		4.14	7.53	(9.35)	0.84	4.50
Russell 2000		5.63	12.40	(5.53)	6.02	5.03
Russell 3000		7.24	15.93	9.39	21.44	13.95
MSCI EAFE		5.15	11.33	(4.28)	6.60	2.84
MSCI Emg Mkts		2.24	19.71	0.68	14.88	3.21
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.38	(0.02)	(0.12)	(0.32)	(0.28)	(0.03)
High Yield	5.48	(0.01)	(0.26)	0.04	(0.12)	(0.30)
Municipal	2.02	0.01	(0.04)	(0.12)	(0.12)	(0.10)

Commodities	8/31/20	6/30/20	3/31/20	12/31/19
Oil (WTI)	37.23	39.27	20.51	61.14
Gold	1957.40	1768.10	1609.00	1514.75

Currencies	8/31/20	6/30/20	3/31/20	12/31/19
USD/Euro ($/€)	1.19	1.12	1.10	1.12
USD/GBP ($/£)	1.34	1.24	1.25	1.33
Yen/USD (¥/$)	105.84	107.77	107.53	108.67

Treasury Rates	8/31/20	6/30/20	3/31/20	12/31/19
3 Month	0.11	0.16	0.11	1.55
2 Year	0.14	0.16	0.23	1.58
5 Year	0.28	0.29	0.37	1.69
10 Year	0.72	0.66	0.70	1.92
30 Year	1.49	1.41	1.35	2.39

Style Returns

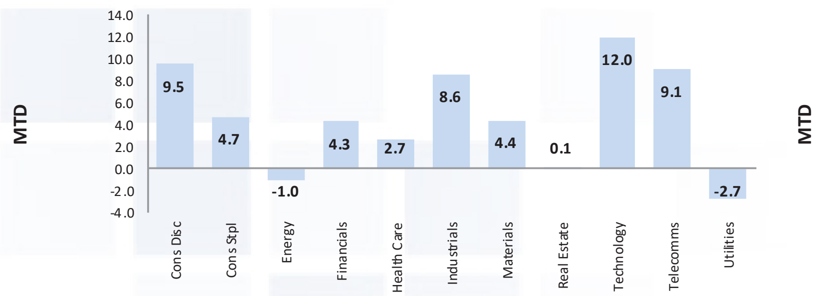
MTD

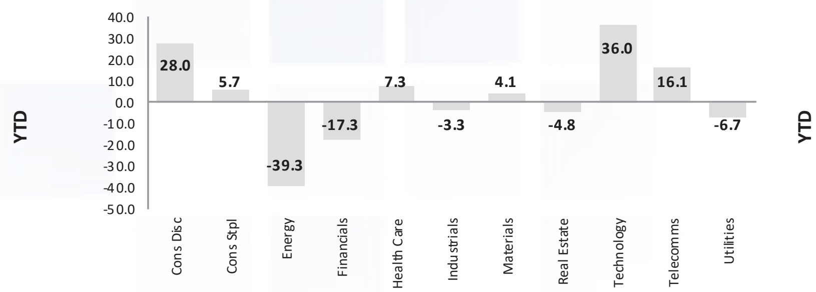
	V	B	G
L	4.13	7.34	10.32
M	3.96	3.52	2.72
S	5.39	5.63	5.87

YTD

	V	B	G
L	-9.35	10.43	30.47
M	-10.82	-0.41	15.54
S	-17.71	-5.53	6.15

S&P 500 Sector Returns





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