August 2020 Market Commentary

WRITTEN: SEPTEMBER 1, 2020

The S&P 500 was positive again in August with a return of 7.19%, finishing just off all-time highs. This was the fifth consecutive month of positive returns. The S&P 500 has returned 9.74% year-to-date and is up over 56% from the March 23 lows. Small cap stocks, as measured by the Russell 2000, returned 5.64% in August, following positive returns in July. The Russell 2000 remains over 15% behind the S&P 500 on a year-to-date basis as of August 31 with a return of -5.50%.

COVID-19, social unrest, and the upcoming U.S. Presidential elections continue to dominate headlines. While most U.S. states have opened their economies with social distancing, some states have seen an uptick in COVID-19 cases and have paused their progress while others are more open. Central Banks and Governments stimulus measures continue to help reduce economic damage, although the federally funded $600 per week additional unemployment coverage expired on July 31. There is talk of additional stimuli and negotiations remain ongoing.

Second quarter GDP was revised to a contraction of -31.7% on an annualized basis, after an initial estimate of a -32.9% annualized contraction. This remains the lowest reading since reporting began in 1947. With the second estimate, private inventory investment, and personal consumption expenditures decreased less than previously estimated. Most of the economic pain occurred during the first half of the quarter when the U.S. economy was heavily closed. An annualized rise of 28.9% is projected in the third quarter by the Atlanta Federal Reserve as of August 28, as the U.S. further opens and the consumer is adapting to procedures in place as they go about their lives. The Conference Board's GDP estimates for calendar year 2020 range from a -3.3% to a -4.9% annualized

Returns by Sector

	S&P 500		Russell 2000	
Sector	**YTD**	**Aug 2020**	**YTD**	**Aug 2020**
Communication Services	16.12	9.06	-13.31	1.10
Consumer Discretionary	27.98	9.53	5.24	10.44
Consumer Staples	5.68	4.74	5.59	7.69
Energy	-39.32	-1.06	-47.49	4.43
Financials	-17.38	4.29	-25.04	4.43
Health Care	7.35	2.67	12.28	5.37
Industrials	-3.90	8.62	-3.09	9.07
Information Technology	37.72	13.44	5.58	2.63
Materials	4.04	4.41	-12.48	6.13
Real Estate	-4.87	0.04	-19.78	3.77
Utilities	-6.73	-2.65	-16.61	-1.72
TOTAL RETURN	**9.74%**	**7.19%**	**-5.50%**	**5.64%**

Source: Bloomberg

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contraction with a full economic recovery occurring sometime between August, 2021 and early 2022. According to the National Bureau of Economic Research, the U.S. entered a recession in February and remains there.

According to the U.S. Bureau of Labor Statistics, employment figures rose by 1.8 million jobs in July and the unemployment rate declined to 10.2% with continued resumption of economic activity that was curtailed earlier in the year. In July, significant job gains occurred in leisure and hospitality, government, retail trade, professional and business services, other services, and health care. The U.S. savings rate was 17.8% in August after peaking at a stunning 32.2% in April. As previously discussed, these continued elevated rates have the potential to be a significant economic growth driver or may be used for sustenance if needed.

The U.S. Federal Reserve remains supportive and accommodative. In August, the Fed announced changes to its Statement on Longer-Run Goals and Monetary Policy Strategy. Some of their highlighted changes are:

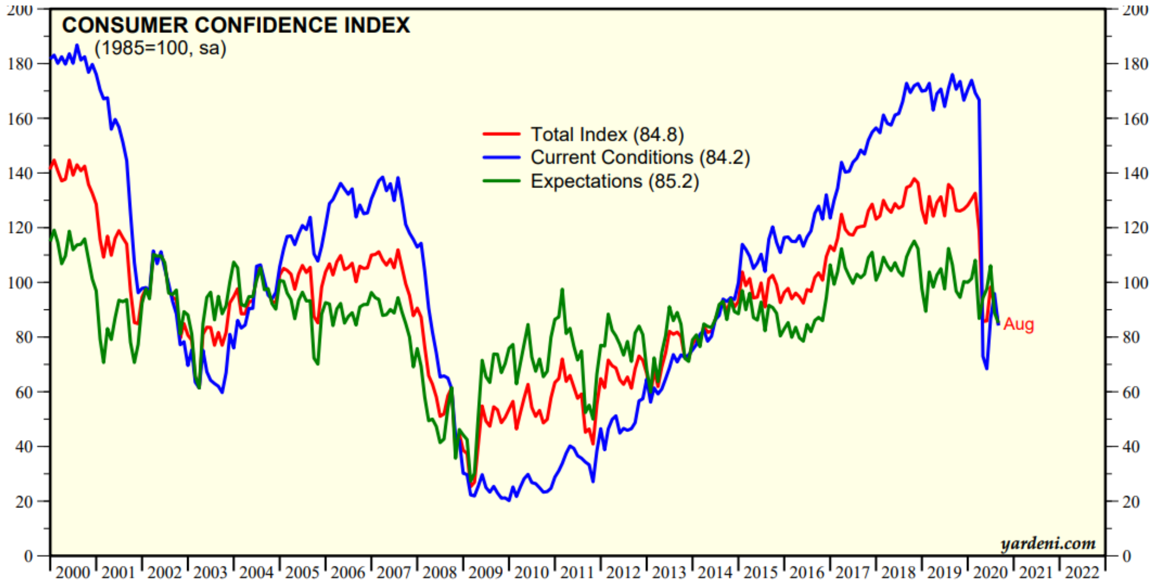
- On maximum employment, the FOMC emphasized that maximum employment is a broad-based and inclusive goal and reports that its policy decision will be informed by its "assessments of the shortfalls of employment from its maximum level." The original document referred to "deviations from its maximum level."
- On price stability, the FOMC adjusted its strategy for achieving its longer-run inflation goal of 2% by noting that it "seeks to achieve inflation that averages 2% over time." To this end, the revised statement states that "following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time."
- The updates to the strategy statement explicitly acknowledge the challenges for monetary policy posed by a persistently low interest rate environment. Here in the United States and around the world, monetary policy interest rates are more likely to be constrained by their effective lower-bound than in the past.

On a year-to-date basis, there remains a sizeable return disparity (over 15%) between large and small company stocks and between growth and value. Large company stocks (as measured by the S&P 500) outperformed small (as measured by the Russell 2000) in August with a return of 7.19% versus 5.64%. The growth/value disparity remains -- on a year-to-date basis through August 31, large cap companies measured by the Russell 1000 Growth have returned 30.46 % whereas the Russell 1000 Value has returned -9.35%. Similarly, in Small Cap stocks, the Russell 2000 Growth has returned 6.15% and the Russell 2000 Value has returned -17.73% on a year-to-date basis through August 31.

West Texas Intermediate (WTI) finished August at $42.78 a barrel, slightly higher than July’s close of $40.43 a barrel and significantly higher than April’s close at $18.84 per barrel. Oil prices have stabilized around $40 a barrel since June. However, WTI is still down considerably after beginning the year at $61.06 per barrel.

Consumer confidence decreased in August to 84.8 from 91.7 in July, its second consecutive monthly decline. The Present Situation Index, a component of consumer confidence, decreased in August with consumers stating that both business and employment conditions have deteriorated. Consumer spending has rebounded in recent months, but there are increasing concerns about the economic outlook and financial well-being which may cause reduced future spending according to the Conference Board. The index is composed of consumer's assessment of present conditions and future expectation of the economy. The consumer is responsible for approximately 70% of the U.S. economy.

Consumer Confidence & Sentiment



The U.S. Bloomberg Barclays Aggregate Index returned 6.85% year-to-date through August 31 including a return of –0.81% during August. There have been significant moves in the bond market this year with the 10-Year U.S. Treasury beginning the year at 1.92%, hitting an all-time low of 0.54% in July and ending August with a yield of 0.72%. Option Adjusted Spreads (as represented by the Bloomberg Barclays Corporate Index) continued to normalize and ended August at 129 basis points. They began the year at 93 basis points and peaked at 373 basis points on March 23, concurrent with the equity market lows.

The Volatility Index (VIX) ended August at 26.41, slightly higher than July's reading of 23.89, but is down considerably from the March 16 peak of 82.69. The VIX's long-term average is approximately 20. Historically, volatility rises rapidly and often declines slowly.

We actively monitor the capital markets and are prepared to respond accordingly. As we have stated in the past, we continue to advise our clients to adhere to their long-term plans and objectives.

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