

Global Economy

Economic data is reflecting a slowdown in the pace of recovery following an increase in US virus cases and a fall in consumer confidence. Cases of the disease continue to surge in many countries, including regions which had shown success in suppressing initial outbreaks. The bull case rests on the efficacy of fiscal and monetary policy support, the economic recovery regaining momentum, the avoidance of further "second wave" infections, and the ability of the US to rein in its virus resurgence. Acknowledging some fundamental degree of ignorance and the unpredictability of future events, forecasts in this environment are of limited use. That said, contractions in both supply and demand suggest global GDP will decline between 4.5% and 5.0% for 2020. In the midst of one of the sharpest recessions in history, valuations provide limited cushion against a bumpy path forward.

The Federal Open Market Committee (FOMC) met in July but did not make any changes to policy rates. The meeting statement was largely unchanged from June, though it did note "The path of the economy will depend significantly on the course of the virus." Signaling an easing of the strained financial conditions brought on by the coronavirus, the Fed balance sheet shrank slightly in July to just under \$7 trillion. July's meeting statement reiterated the Fed's commitment to maintaining the current pace of asset purchases and to "using its full range of tools to support the US economy."

The first estimate of 2Q-20 real GDP indicated the US GDP contracted at a record rate of -32.9% annualized. 22.9 percentage points of that were due to a steep decline in personal services spending. Monthly data indicates all of the contraction occurred in April, with output rising in May and June. Analysts are expecting a significant recovery for 3Q-20, with estimates ranging from +10% to +30% annualized.

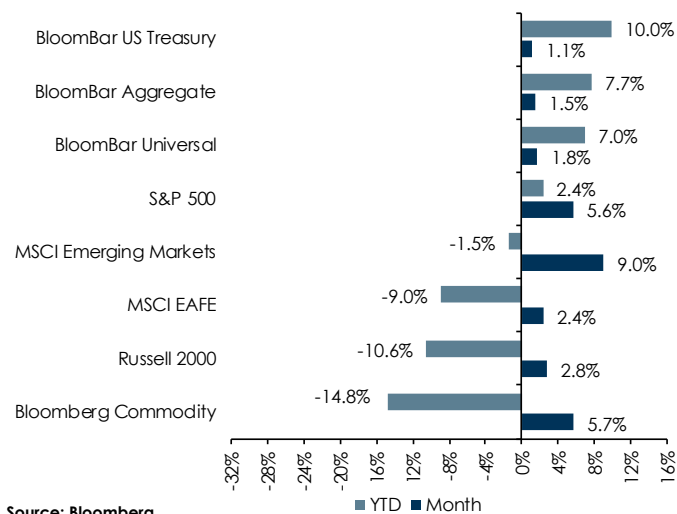
More than 54 million US workers have filed initial unemployment claims since mid-March, with weekly initial claims rising in the last two weeks of July after 15 straight weeks of declines. Nonetheless, July employment data surprised to the upside for the third month in a row, with 1.8 million jobs added and a decline in the official unemployment rate to 10.2%. One third of the gains were in the leisure & hospitality industry. However, it should be noted the figures are drawn from a mid-month survey and don't reflect any virus-related impact from the latter half of July. Core CPI remained at +1.2% year-over-year, while the FOMC's preferred measure, Core PCE, edged down to just +0.9% year-over-year through June.

	Current	Dec-19
US GDP (%)	-32.9	2.10
US Unemployment (%)	10.2	3.50
CPI (Core) (%)	1.2	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.53	1.92
S&P 500 Div Yld (%)	1.95	1.82
S&P 500 P/E (Trailing)	25.47	21.60
Gold/oz.	\$1,962.80	\$1,523.10
Oil (Crude)	\$40.27	\$61.06
Gasoline (Natl Avg)	\$2.27	\$2.66
USD/Euro	\$1.18	\$1.12
USD/GBP	\$1.31	\$1.33
Yen/USD	¥105.83	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for most major equity sectors and indices were positive in July amid optimism related to promising vaccine developments. The S&P 500, which represents large US-based entities, continued to recover from March's steep drop with a +5.64% return. Consumer Discretionary (+9.0%) and Utilities (+7.7%) led the way with Materials (+7.0%), Consumer Staples (+6.8%), and Communication Services (+6.6%) also posting strong returns. Energy (-5.4%) and Financials (+3.5%) were the laggards. Small cap stocks, as represented by the Russell 2000, continued to perform well, with a +2.8% return in July. Among the sectors, Consumer Discretionary (+8.7%) was the strongest performer. Financials (-1.1%) and Health Care (-0.1%) were the only negative performers. Across the market capitalization spectrum, Growth continued its advantage over Value.

In the broad international developed markets, the MSCI EAFE index rose +2.4% as most sectors and countries were positive for the month. Led by Materials (+6.1%), Utilities (+5.6%), and IT (+4.9%), there was broad support for the markets, with Energy (-3.9%) being a notable laggard. Sweden (+9.7%) and Norway (+9.6%) were the top performing countries during the month, with most others generally in the 2% to 6% range. Japan (-1.6%), Austria (-0.9%) and Hong Kong (-0.7%) were the only EAFE countries to go negative for the month.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their developed market counterparts at +9.0%. Taiwan (+16.6%), and Brazil (+14.2%) were the best performers. Taiwan turned positive year-to-date, and along with China are the only countries in the index with a positive YTD return.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, had performance comparable with equities this month, returning +2.9%. The energy-related Alerian MLP continued to lag other equities at -3.6%. The near-month NYMEX oil continued its recovery in July (+2.6%) but remains off by -34.1% year-to-date. Gold extended its 2020 rally, adding +9.0% for the month. The diversified Bloomberg Commodity index had another positive month (+5.7%) as broad-based demand for most commodities continued to recover.

Global Markets (continued)

US Treasury (UST) yields fell across the board in July, reflecting the fade in optimism that took hold as COVID-19 cases increased in the month. The 10-year UST yield ended 13 bps lower at an all-time low of 0.53%. The treasury curve flattened month-over-month as the 2-year UST yield ended the month 4 bps lower at 0.10% while the 30-year UST yield dropped 22 bps to 1.19%. Given this backdrop, the overall UST complex was positive for the month and year-to-date returns remain impressive at +9.95%. As sovereign yields outside of the US were lower, the global stock of negative yielding debt expanded to \$15.9 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads continued to recover. With a gain of 1.5% in July, the benchmark's trailing 12-month performance of +10.1% remains impressive given prevailing yield levels. IG corporate issuance was down significantly, and that combined with strong demand helped corporate spreads tighten by another 17 bps for the month, with BBB-rated issues again recovering most dramatically. With tighter spreads across categories and lower UST yields, the benchmark's yield-to-worst fell 20 bps to just 1.05%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning +1.4% in July. Municipal issuance slowed in the month following three straight months of increases, and tax-exempt yields moved lower amid strong demand from investors. Fiscal policy support remains uncertain, with congress failing to agree to additional stimulus by month-end.

The BloomBar US Corporate High Yield index returned +4.7% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 138 bps tighter on average with light supply and strong demand. All-in yields have continued to fall and are now down to 5.4%, even as default rates continue to climb. Bank loans continued to recover, and emerging market bonds of all varieties produced positive returns as investors sought enhanced income.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.01	-0.02
Germany	-0.53	-0.19
France	-0.19	0.12
United Kingdom	0.10	0.82
Spain	0.34	0.46
United States	0.53	1.92
Italy	1.01	1.41
Mexico	5.71	6.89
Brazil	6.56	6.79

Source: Bloomberg

Indices Report (Periods Ending July 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	5.64	2.38	11.96	12.01	11.49	13.84	8.96
Russell 1000	5.86	2.88	12.03	12.02	11.31	13.85	9.04
Russell 1000 Growth	7.69	18.26	29.84	20.91	16.84	17.29	11.52
Russell 1000 Value	3.95	-12.95	-6.01	2.70	5.36	10.12	6.31
Russell 2500	3.98	-7.51	-1.92	5.08	6.28	11.14	7.72
Russell 2000	2.77	-10.57	-4.59	2.69	5.10	10.07	6.77
Russell 2000 Growth	3.44	0.27	6.00	8.77	7.49	12.58	8.60
Russell 2000 Value	2.06	-21.92	-15.91	-3.90	2.24	7.30	4.72
Wilshire 5000 Cap Wtd	5.66	2.16	11.17	11.47	11.11	13.60	8.97
MSCI ACWI	5.33	-0.96	7.76	7.56	7.96	9.45	7.10
MSCI ACWI ex US	4.50	-6.74	1.11	1.87	3.71	5.00	4.97
MSCI EAFE	2.35	-8.97	-1.24	1.12	2.60	5.51	4.52
MSCI EAFE Local Currency	-1.77	-11.84	-6.21	0.91	2.05	6.68	4.59
MSCI EAFE Growth	4.50	1.07	9.59	7.02	6.35	7.78	6.19
MSCI EAFE Value	0.22	-18.79	-11.86	-4.85	-1.32	3.09	2.74
MSCI Emerging Markets	9.03	-1.52	6.92	3.22	6.54	3.69	6.82
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.10	3.05	4.29	2.65	1.85	1.31	2.32
BloomBar US Aggregate	1.49	7.72	10.12	5.69	4.47	3.87	4.56
BloomBar Gov't Bond	1.12	9.82	11.70	5.87	4.11	3.38	4.17
BloomBar US Credit	3.08	8.05	11.86	6.96	6.05	5.36	5.55
BloomBar 10 Yr Municipal	1.78	4.30	5.70	4.67	4.37	4.48	4.80
BloomBar US Corp High Yield	4.69	0.71	4.14	4.54	5.88	6.80	7.05
FTSE World Gov't Bond	3.63	7.86	8.91	4.59	4.34	2.36	3.60
BloomBar Global Aggregate	3.19	6.27	7.85	4.30	4.16	2.79	3.82
BloomBar Multiverse	3.25	5.87	7.47	4.24	4.26	2.94	3.94
Real Assets							
NCREIF Property	0.00	0.71	3.71	5.80	6.98	9.81	7.76
NFI OCE Net	0.00	-1.00	1.34	4.73	6.35	9.78	6.02
FTSE NAREIT US Real Estate	4.05	-15.42	-10.66	0.95	3.75	8.50	5.81
Bloomberg Commodity	5.71	-14.80	-12.07	-5.09	-4.54	-5.91	-4.27
Cash and Equivalents							
US T-Bills 90 Day	0.02	0.62	1.46	1.74	1.20	0.64	1.34

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