

Global Economy

The pace of recovery has slowed over the summer with an increase in infections, but high-frequency economic data continues to show growth. While the US has managed to reduce its daily case count from the July peak, Europe now faces a virus resurgence brought on by easing restrictions and summer travel. Fed policy is likely to remain accommodative for the foreseeable future, but new fiscal support remains elusive as Congress has failed to reach an agreement. Controlling the virus will ultimately be the key to sustained economic momentum. Experts are generally optimistic a Covid-19 vaccine will be produced but the timing and effectiveness remain uncertain. Following a record GDP decline in the 2nd quarter of 2020, many potential outcomes for the size and speed of recovery remain. 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 did not formally meet in August. That said, Chairman Powell's speech at the annual Jackson Hole Summit outlined an important shift in policy, stating the Fed would allow inflation to moderately rise above its 2% target. The Fed also shifted its policy towards the concept of "full employment" signaling that reaching a minimum unemployment level will not necessarily trigger an increase in interest rates. After expanding rapidly early in the pandemic, the Fed balance sheet has remained stable for the past four months as strained financial conditions have eased, hovering around \$7 trillion. After shrinking in July, it climbed back above \$7 trillion in August.

The second estimate of 2Q-20 real GDP indicated the US GDP contracted at a record rate of -31.7% annualized, a moderate improvement from initial estimates. With the second estimate, private inventory investment and personal consumption expenditures decreased less than previously estimated. Analysts are expecting a significant recovery for 3Q-20, with estimates ranging from +10% to +30% annualized.

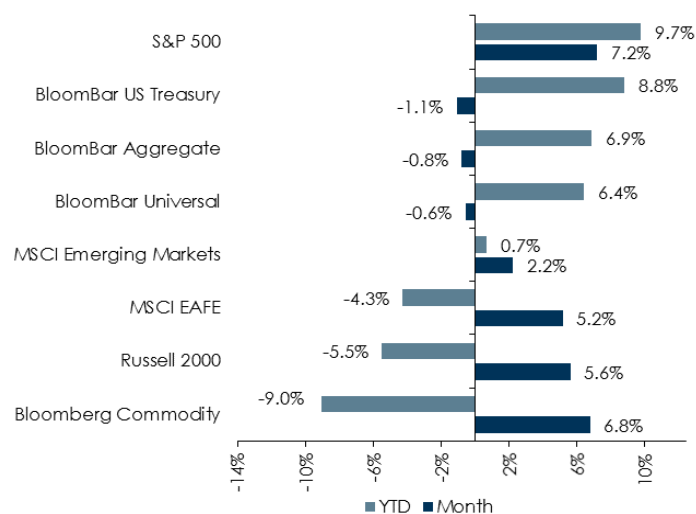
More than 58 million US workers have filed initial unemployment claims since mid-March. Weekly initial claims fell below one million for the first time in five months in August but jumped back above that level later in the month. Nonetheless, employment data in August surprised to the upside for the fourth month in a row, with 1.4 million jobs added and a decline in the official unemployment rate to 8.4%. Core CPI rose to +1.6% year-over-year, while the FOMC's preferred measure, Core PCE, increased to +1.3% year-over-year through July.

	Current	Dec-19
US GDP (%)	-31.7	2.10
US Unemployment (%)	8.4	3.50
CPI (Core) (%)	1.6	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.71	1.92
S&P 500 Div Yld (%)	1.72	1.82
S&P 500 P/E (Trailing)	27.26	21.60
Gold/oz.	\$1,970.50	\$1,523.10
Oil (Crude)	\$42.61	\$61.06
Gasoline (Nat'l Avg)	\$2.31	\$2.66
USD/Euro	\$1.19	\$1.12
USD/GBP	\$1.34	\$1.33
Yen/USD	¥105.91	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Returns for all major equity sectors and indices were positive in August with investors focused on releases of better-than-feared earnings reports and ignoring policy gridlock in Washington. The S&P 500, which represents large US-based entities, advanced for a fifth straight month with a +7.2% return. Information Technology (+11.8%) and Consumer Discretionary (+9.4%) led the way with Communication Services (+9.1%) and Industrials (+8.3%) also posting strong returns. Utilities (-3.1%), Energy (-2.1%), and Real Estate (-0.1%) were the only sectors with negative returns. Small cap stocks, as represented by the Russell 2000, continued to perform well, with a +5.6% return in August. Among the sectors, Consumer Discretionary (+10.4%) was the strongest performer. Utilities (-2.5%) was the only negative performer. Across the market capitalization spectrum, Growth continued its advantage over Value.

In the broad international developed markets, the MSCI EAFE index rose +5.2% as all sectors and countries were positive for the month. Led by Industrials (+9.5%), Consumer Discretionary (+9.5%), and Real Estate (+7.2%), there was broad support for the markets. Utilities (+0.5%) and Consumer Staples (+1.2%) were the laggards. Finland (+8.4%) and Hong Kong (+7.9%) were the top performing countries during the month, with most others generally in the 2% to 6% range. Portugal (+0.0%), New Zealand (+0.9%) and Israel (+0.9%) had the lowest developed market performance.

Emerging market stocks, as represented by the MSCI Emerging Markets index, underperformed their developed market counterparts at +2.2%. Egypt (+8.4%), UAE (+7.5%), and Peru (+7.5%) were the best performers. South Korea, Taiwan, and China are the only countries in the index with a positive YTD return.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was positive for the month but lagged most equities, returning +2.6%. The energy-related Alerian MLP continued to trail other equities at +0.5%. The near-month NYMEX oil continued its recovery in August (+5.8%) but remains off by -30.2% year-to-date. Gold modestly extended its 2020 rally, adding +0.4% for the month. The diversified Bloomberg Commodity index had another positive month (+6.8%) as broad-based demand for most commodities continued to recover.

Global Markets (continued)

US Treasury (UST) yields rose across the board in August, with the Fed's policy framework announcement serving as a primary driver of rates in the month. The treasury curve steepened as long-term rates continued to rise in expectation of higher future inflation given the Fed's new approach to inflation targeting. Given this backdrop, the overall UST complex was negative for the month at -1.1%, with year-to-date returns still at an impressive +8.8%. Sovereign yields outside of the US were also higher, and the global stock of negative yielding debt declined to \$14.2 trillion from \$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 closed the month slightly tighter. While the benchmark lost -0.8% in August, the 12-month performance of +6.5% remains impressive given prevailing yield levels. IG corporate issuance accelerated in August, and spreads were range-bound, tightening or widening by no more than 3 bps day-over-day to close the month 4 bps tighter. With moderately tighter spreads across most categories and higher UST yields, the benchmark's yield-to-worst rose 10 bps to just 1.15%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning -0.3% in August. Issuance remained strong in the month, but rising uncertainty around fiscal support tempered demand and tax-exempt yields moved higher. Congress broke for August recess still far apart on a stimulus bill, leaving the outlook for future aid to cash-strapped local governments unclear.

The BloomBar US Corporate High Yield index returned +0.95% for the month, directionally consistent with higher-risk equities. Benchmark spreads were 11 bps tighter on average with heavy supply and supportive demand. All-in yields fell slightly and are now down to 5.3%, as default volume dropped in August. Bank loans continued to recover, and emerging market bonds produced generally positive returns as investors sought enhanced income.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.05	-0.02
Germany	-0.40	-0.19
France	-0.10	0.12
United Kingdom	0.31	0.82
Spain	0.41	0.46
United States	0.71	1.92
Italy	1.09	1.41
Mexico	6.07	6.89
Brazil	7.09	6.79

Source: Bloomberg

Indices Report (Periods Ending August 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	7.19	9.74	21.94	14.52	14.46	15.16	9.54
Russell 1000	7.34	10.43	22.50	14.58	14.31	15.19	9.62
Russell 1000 Growth	10.32	30.47	44.34	24.18	20.66	19.02	12.35
Russell 1000 Value	4.13	-9.35	0.84	4.50	7.53	11.05	6.63
Russell 2500	4.53	-3.32	6.79	6.94	8.54	12.31	8.15
Russell 2000	5.63	-5.53	6.02	5.03	7.65	11.53	7.30
Russell 2000 Growth	5.87	6.15	17.28	10.90	10.45	14.08	9.12
Russell 2000 Value	5.39	-17.71	-6.14	-1.39	4.37	8.71	5.25
Wilshire 5000 Cap Wtd	7.31	9.65	21.79	14.03	14.07	14.95	9.55
MSCI ACWI	6.16	5.12	17.12	9.56	10.81	10.49	7.47
MSCI ACWI ex US	4.30	-2.73	8.79	3.12	6.26	5.74	5.08
MSCI EAFE	5.15	-4.28	6.60	2.84	5.23	6.37	4.70
MSCI EAFE Local Currency	4.11	-8.22	0.05	2.28	4.52	7.40	4.78
MSCI EAFE Growth	4.46	5.57	15.87	8.38	8.90	8.55	6.29
MSCI EAFE Value	5.87	-14.02	-2.71	-2.83	1.39	4.05	2.98
MSCI Emerging Markets	2.24	0.68	14.88	3.21	9.05	4.12	6.91
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.02	3.02	3.44	2.57	1.86	1.29	2.27
BloomBar US Aggregate	-0.81	6.85	6.47	5.09	4.33	3.65	4.42
BloomBar Gov't Bond	-1.06	8.65	6.91	5.12	3.88	3.09	4.00
BloomBar US Credit	-1.27	6.68	7.10	6.21	5.91	5.01	5.35
BloomBar 10 Yr Municipal	-0.54	3.73	3.53	4.23	4.20	4.14	4.68
BloomBar US Corp High Yield	0.95	1.67	4.71	4.88	6.45	6.90	7.10
FTSE World Gov't Bond	-0.45	7.38	5.61	4.02	4.15	2.12	3.44
BloomBar Global Aggregate	-0.15	6.11	5.54	3.91	4.10	2.63	3.69
BloomBar Multiverse	-0.09	5.77	5.44	3.87	4.24	2.79	3.83
Real Assets							
NCREIF Property	0.00	0.71	3.71	5.80	6.98	9.81	7.76
NFI ODCE Net	0.00	-1.00	1.34	4.73	6.35	9.78	6.02
FTSE NAREIT US Real Estate	0.78	-14.76	-12.92	1.30	5.25	8.73	6.13
Bloomberg Commodity	6.76	-9.04	-3.90	-3.13	-3.10	-5.05	-4.31
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.62	1.27	1.72	1.20	0.64	1.32

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