FINANCIAL MARKET SNAPSHOT

An August for the Record Books

September 2, 2020

Equity returns for August were historic on multiple levels.

An ease in Covid-19 concerns, as well as some change in the political winds, may have been catalysts for the acceleration of stock gains.

Just when you think you have seen nearly everything in this market, months like August prove you wrong. In what is beginning to feel uncomfortably like 1999-2000, stocks pushed still-higher during the month and valuations reached further-afield versus historical norms. In fact, equity gains accelerated off of what was a robust and perhaps head-shaking July performance.

In terms of numbers, the S&P 500 Index recorded its best August performance (total return) since 1986. On August 18th, the Index also managed to best its previous all-time closing high set on February 19th. The S&P 500's recovery to new highs, after a bear-market (down 20%), is the fastest on record at 151 calendar days. The previous record was 212 days set back in 1967. Prior to 2020, the average S&P 500 return to new highs, following a bear-market, has been 1001 days.

Table 1: Notable Returns / Yields / Spreads: May. '20 - Aug. '20

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month
High Yield Corp Spreads = Yield-to-Worst differential vs. 10Yr Treasury (end of month)

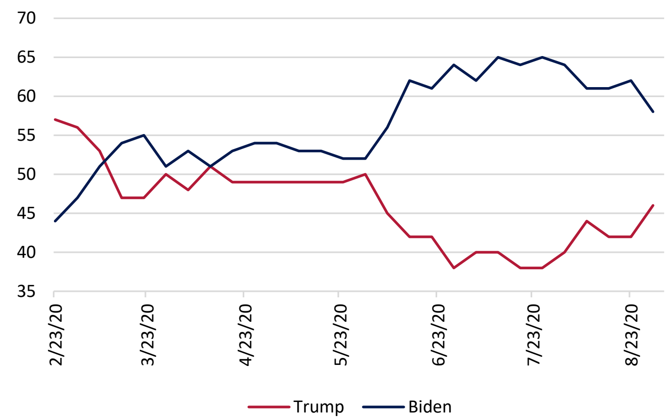
	May '20	Jun '20	Jul '20	Aug '20
S&P 500 Index	4.76%	1.98%	5.63%	7.18%
MSCI EAFE Index	4.41%	3.45%	2.36%	5.18%
MSCI Emerging Markets Index	0.79%	7.36%	9.01%	2.23%
BBG Barc U.S. Aggregate Bond Index	0.47%	0.63%	1.49%	-0.81%
10-Year Treasury Yield	0.65%	0.66%	0.53%	0.71%
U.S. HY Corp Spread (10Yr)	6.37%	6.19%	4.84%	4.63%

All this bear-market recovery data is made more remarkable by the recollection that the bear-market condition (down 20%), reached only back in March, also occurred in record time. The speed with which this market trades in today's age is truly extraordinary.

Meanwhile, reasons for the August momentum rest squarely on some easing in Covid-19 concerns, further hopes for a near-term vaccine, and recent developments in the election cycle. We have stated apolitically that a Trump win could further fan the flames of capitalism and support stocks. And the incumbent's apparent poll resurgence may be protecting and growing what we believe to be a capitalist premium built-into equity prices. Historically, a bullish equity market ahead of a presidential election is indeed a good sign for a sitting president. Perhaps the market already knows something that we do not?

Elsewhere, U.S. credit markets are offering a similar message, although after tightening sharply already, credit spreads stayed relatively steady in August. Credit issuance remained robust as historically low funding costs propelled refinancing activity. U.S. Treasury yields ticked up modestly during August as higher than expected July Core CPI (+1.6% vs. +1.1% consensus) raised some concern over inflation pressures. While cyclical inflation may be present, given current supply/demand abnormalities, we do not believe inflation will be a sustained worry.

Figure 1: Election Win Probability
Source: Predictit.org



President Trump appears to be operating with a tailwind following recent political party conventions.

From a portfolio management perspective, pricey equity markets have left us cautious. Notably the historic speed of the equity recovery has left our strategies lagging the high-frequency market action as we have held some cash aside. While this is not optimal news when comparing returns against a market benchmark, we believe our strategy matches our philosophy. We do not seek to mimic the market's trading speed in today's age, which is an impossibility for most individual investors. However, we do seek to align client portfolios in a manner consistent with our goal of potentially growing client wealth while seeking to mitigate market damage. Chasing high-risk market activity, which we believe we are witnessing in today's current conditions, is indeed not a part of our approach.

Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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The S&P 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

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