August 24, 2020

Weekly Viewpoint

S&P Extends Winning Streak, Closes at New High

Performance for Week Ending 8.21.2020

The Dow Jones Industrial Average (Dow) finished unchanged, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) added 0.76%, the Standard & Poor's 500 Index (S&P 500) finished up 0.72% and the Nasdaq Composite Index (NASDAQ) tacked on 2.65%. Sector breadth was mixed with 5 of the S&P sector groups closing higher and 6 closing lower. The Technology (+3.48%) sector was the best performer while Energy (-6.11%) was the worst.

Index*	Closing Price 8/21/2020	Percentage Change for Week Ending 8/21/2020	Year-to-Date Percentage Change Through 8/21/2020
Dow	27930.33	0.00%	-2.13%
Wilshire 5000	34741.16	+0.76%	+5.64%
S&P 500	3397.16	+0.72%	+5.15%
Nasdaq	11311.80	+2.65%	+26.07%

Market Observations: 8/17/20–8/21/20

The S&P 500 posted a fourth consecutive week of gains and closed Friday at a new all-time high. Driving the gains was expectations of additional fiscal stimulus which offset a batch of mixed economic data. Signs that a COVID vaccine could emerge in the coming months added to the positive tone. According to media reports, Pfizer and its German partner BioNTech said their Covid-19 vaccine candidate would move into final-stage testing as soon as October. The companies said the vaccine "was well tolerated with mild to moderate fever in fewer than 20% of the participants." According to the World Health Organization, more than 160 coronavirus vaccines are currently under development worldwide.

Economic Roundup: In US economic news, after dipping below 1 million during the prior week, initial jobless claims rose by 135K to 1.1 million, reflecting an increase in layoffs amid the recent uptick in COVID cases in the Sunbelt region. While the level of initial claims is a fraction of what it was in March, claims remains high by historical standards and is indicative that labor market conditions remain fragile. Meanwhile, the rebound in the housing market continues. Late in the week, the National Association of Realtors (NAR) reported that existing home sales soared a record 24.7% in July to a 5.86-million-unit annual rate, the highest level since December 2006, and well above the consensus of a 5.39 million unit rate. All four geographic regions posted double-digit gains, as homebuyers across the nation took advantage of record low mortgage rates. Earlier in the week, the Commerce Department reported that housing starts surged 22.6% in July, the third consecutive gain, and the biggest increase since October 2016. Meanwhile, building permits, which tend to lead housing starts by a few months, jumped 18.8%, the most since January 1990. Strong housing demand since the shutdown low in May and rising home prices confirm that the housing market has been one of the pillars of the economic recovery.

FOMC Meeting Minutes: The meeting minutes from the July Federal Open Market Committee (FOMC) showed some tempered optimism about growth in the second half of 2020. The central bank noted the health crisis would “weigh heavily” on economic activity and repeated its view that the path of the recovery would depend on containment of the virus. Policymakers also underscored the need for Congressional lawmakers to pass another round of fiscal stimulus to keep the economy from stalling.

Fiscal Policy: On the fiscal front, Democratic and Republican leaders remain at a stalemate, however they hinted late in the week that they are looking for a path toward reviving the stalled negotiations. House Speaker Nancy Pelosi suggested that Democrats might be willing to make more cuts to their stimulus proposal to seal a deal with Republicans and speed Covid-19 relief. The White House responded by saying it remains optimistic about the chance to quickly pass a slimmed-down deal. With the July 31 expiration of the extended unemployment benefits, there is building concern that consumer spending during the August/September time frame could take a hit.

Market View: With the S&P 500 up over 50 percent since the bottomed reached on March 23, and the Tech-heavy NASDAQ Composite up by nearly percent, it wouldn’t be surprising to see a period of consolidation develop in the weeks ahead. Historically the late-August through early-September period has been a seasonally weak time for the markets due to a lack of liquidity, which tends to result in elevated levels of volatility, often with a downward bias. Since the March lows, the S&P 500 has had several pullbacks that have ranged from 4 to 7 percent, a level that seems to be the sweet spot to draw the ‘Buy the Dip’ crowd back into the market. At the end of the day, the amount of stimulus being pumped into the economy should continue to act as a safety net under the market, and if there is one lesson learned over the past decade, it’s you shouldn’t “Fight the Fed.”

If a cooling off period were to develop in the weeks ahead, we would suggest using the pullback to selectively add to equity positions. The economic situation should continue to get “less bad” and earnings expectations have started to stabilize. The healthcare system seems to be better prepared for any new flare up in COVID cases and paradoxically, the market knows that the worst things get, the more likely the Federal Reserve and policymakers will inject additional stimulus into the economy. While nothing moves in a straight line, we continue to believe the return profile over the next 12 – 24 months should remain asymmetrical, with an upward bias.

The Week Ahead: The focal point of the coming week will be the Kansas City Fed's Jackson Hole Symposium where Chairman Powell will headline the event with a speech on Thursday morning. This year's gathering will focus on "Navigating the Decade Ahead: Implications for Monetary Policy." On the data front, reports of interest include; the Conference Board's August consumer confidence survey, July new home sales, the Case-Shiller home price index for June, July durable goods orders, the first revision to second-quarter GDP, July pending home sales and July personal income and spending. It will be a quiet week on the earnings front with just 15 members of the S&P 500 Index scheduled to report.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market Index℠ represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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