August 31, 2020

Weekly Viewpoint

The Melt-Up Continues

Performance for Week Ending 8.28.2020

The Dow Jones Industrial Average (Dow) finished up 2.59%, the Wilshire 5000 Total Market Index℠ (Wilshire 5000℠) added 3.17%, the Standard & Poor's 500 Index (S&P 500) gained 3.26% and the Nasdaq Composite Index (NASDAQ) tacked on 3.39%. Sector breadth was positive with 10 of the 11 S&P sector groups closing in positive territory. The best performers on the week were Communication Services (+4.80%), Technology (+4.50%) and Financials (+4.35%). The Utilities sector was the sole loser on the week, falling 0.65%.

Index*	Closing Price 8/28/2020	Percentage Change for Week Ending 8/28/2020	Year-to-Date Percentage Change Through 8/28/2020
Dow	28653.87	+2.59%	+0.40%
Wilshire 5000	35841.57	+3.17%	+8.98%
S&P 500	3508.01	+3.26%	+8.58%
Nasdaq	11695.63	+3.39%	+30.35%

Market Observations: 8/24/20–8/28/20

The major market indices finished the week broadly higher with the S&P 500 posting a fifth consecutive week of gains. The Dow erased its year-to-date loss and now sits just over 3% below its all-time high made in February. Driving the gains was the emergency authorization by the Food and Drug Administration (FDA) for a rapid COVID test that can deliver results in as little as 15 minutes. Adding to the positive sentiment was a shift in strategy by the Federal Reserve to be more flexible regarding inflation levels. The move suggests that interest rates are likely to remain lower for longer.

Economic Roundup: In US economic news, Q2 real GDP growth was revised up by 1.2 percentage points to a -31.7% annual rate, slightly better than the initial reading of -32.9%. Despite the upward revision, the plunge in growth remains the deepest contraction on record, as most economic activity was brought to a halt in March and April to slow the spread of coronavirus. Since then, economic indicators have rebounded but many remain shy of their pre-pandemic levels. One area of the economy that has been on fire is the housing sector, which is benefitting from record low mortgage rates. New home sales during July surged 13.9% to a 901K unit annual rate, the highest level since December 2006, and the third straight double-digit increase. Meanwhile, pending home sales climbed 5.9% in July, the third consecutive monthly gain. On a year-over-year basis, sales rose 15.5% year-over-year, the most since April 2012.

Fed's Flexibility: As has been telegraphed over many months, Fed Chairman Powell laid out plans for a more flexible policy toward the central banks inflation goal. Since 2012, the Fed has had an inflation target of 2%, although during that time frame, inflation has consistently fallen short of its goal. Going forward, the Fed will now let inflation drift above the 2% target, with a goal of reaching an "average" inflation target of 2%. The Fed also laid out plans to let the labor markets run hot, unless there was clear evidence of rising inflation. The Fed's new flexibility suggests interest rates are likely to stay lower for longer and could remain pegged at current levels beyond the central bank's commitment to keep rates unchanged through the end of 2022.

Modest Easing in Trade Tensions: Last week, the U.S. and China reaffirmed their commitment to the phase one trade agreement. Treasury Secretary Mnuchin, U.S. Trade Rep Robert Lighthizer and Chinese Vice Premier Liu He spoke for the first time since early May amid rising tensions between Washington and Beijing over such matters as Hong Kong, tech security and the coronavirus pandemic. The parties originally had been scheduled to speak Aug. 15 as part of a six-month review since the agreement went into effect in mid-February. According to a statement from the U.S. Trade Representative's office "Both sides see progress and are committed to taking the steps necessary to ensure the success of the agreement."

Market View: With the S&P 500 up nearly 57 percent since the bottomed reached on March 23, it wouldn't be surprising to see a period of consolidation develop in the weeks ahead. Historically the month of September has been a seasonally weak time for the markets. 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: Expectations are for a mostly quiet week, as many investors are expected to cut things short ahead of the upcoming holiday weekend. The focal point of this week's data calendar will be the August payroll report on Friday. According to Bloomberg, nonfarm payrolls are expected to expand by 1.4 million while the unemployment rate is forecast to fall to 9.8% from 10.2% last month. Other data reports of interest include; the Markit purchasing managers' manufacturing index (PMI) for August, the Institute for Supply Management's (ISM) August manufacturing index, July construction spending, August motor vehicle sales, the ADP's August employment report, the Federal Reserve's Beige Book, and the ISM August services index. On the earnings front, only seven members of the S&P 500 are scheduled to release results. The Fed speaking calendar will be active with seven Fed heads scheduled to speak. Investors will monitor the speeches very closely for additional insight into the Fed's new flexibility around its inflation target.

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 IndexSM 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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