July 2020

DeMarche Dashboard

A Flash Report on Markets and the Economy

Data and Commentary for Periods Ended 7/31/2020

Global Overview

Global equity markets continued to perform strongly in July, largely driven by stronger-than-expected financial reports and earnings as well as optimism on progress toward a COVID-19 vaccine. Within fixed income, domestic municipal bonds and investment grade corporates posted positive returns, largely assisted by narrowing credit spreads.

U.S. Markets & Economy

U.S. stocks continued their string of positive performance in the month of July, with the S&P 500 finishing the month with a 5.6% gain. As of July 31st, over half of all companies within the Index have reported earnings, with 84% of companies reporting earnings in excess of analysts' estimates. Of those companies reporting positive surprises, Health Care and Technology companies demonstrated the most outsized surprises. Industry sectors were all higher in July, with the exception of companies within the Energy sector (-5.1%). Mega-cap technology companies continued to lead the charge in terms of returns as well as the reporting of exceptional earnings.

Following a resurgence in COVID-19 case numbers in June as the U.S. economy opened, July saw many states taking actions such as pausing or even rolling back reopening plans, implementing mask mandates and a subsequent leveling off of cases in aggregate. A staggering drop in the reported second-quarter GDP number caused some concerns in investors, leading to a volatile last week of July in the equity markets. The reported second quarter-GDP contracted by 32.9%, the largest quarter-over-quarter drop in history, largely a function of losses from the service sector. However, this ended up being slightly better than the consensus expectation for a decline of 34.7%. Unemployment remains elevated as of the end of July, with 1.4 million people filing for unemployment in the last week of July, the second straight weekly increase. Other economic indicators announced within the month showed marked improvement, with consumer spending rising 7.5% in June and manufacturing rising by 7.2%. Additionally, homebuilding confidence now sits near all-time highs after hitting a seven-year low in April.

The Federal Reserve left its benchmark interest rate unchanged at the month-end meeting and also stated that it would continue with the current commitment to bond purchases as well as the lending and liquidity programs currently in place. In July, the Treasury yield curve flattened - high yield bonds also generated positive performance during the month, though spreads continued tightening. The 10-year corporate spread versus Treasuries narrowed to 1.15%, which is the lowest spread since October 2018.

- The Russell 2000 Index returned 2.8% in July, though it is still down 10.6% year to date, despite four months of strong performance.
- The Bloomberg Barclays Aggregate Index returned 1.5% in the month, driven by declining yields.

International Markets & Economy

Both developed non-U.S. and emerging market equities posted positive returns in the month of July, with the MSCI EAFE Index returning 2.3% and the MSCI Emerging Markets Index returning 8.9%. European Union leaders agreed to a €750 billion fiscal stimulus package, notably financed by the selling of bonds in a collective rather than individual manner. A great deal of the resulting funds will be distributed to nations affected most by the pandemic as grants that do not have to be repaid. German shares remained even on the month, while French stocks lost ground following the agreement. Japan continued its struggles in July, with reported earnings failing to exceed expectations. Emerging markets continued their strong performance from the second quarter, breaking their 200-day moving average for the first time since the onset of the COVID-19 pandemic. Chinese factory activity reported in July showed expansion at a stronger pace, particularly in electrical and pharmaceutical goods, after the government lifted lockdowns and stepped up investment, but still showed weakness in terms of export orders. Outside of struggles in the Russian ruble, emerging market currencies had their best month this year, largely as a result of doubts in U.S. economic recovery and dollar weakness.

- The MSCI Emerging Markets Index (USD) returned 8.9% in July. Similar to the U.S., a large portion of emerging markets equity returns have been led by technology-oriented securities, which have led the way globally for the entirety of 2020.

In the News

- Commodities posted mixed returns in the month of July, with divergent returns within components of the asset class. The S&P GSCI was down 0.2% for the month and 13.1% year-to-date while the Dow Jones Commodity Index was down 0.8% in July and up 6.1% year-to-date, largely as a result of its lower relative energy weighting. Oil prices remained relatively stable despite noted escalation of geopolitical tensions in the Middle East, with the S&P GSCI Petroleum up 0.7%. Industrial metals posted marginal gains, with the exception of nickel, which was up 14% as the result of an increasing market deficit and decrease in current stockpiles. Prior to expected interest rate cuts, global gold and silver demand increased, with the S&P GSCI Silver Index spiking 7.1% in July. In contrast, agriculture showed weakness, with the S&P GSCI Agriculture falling 5.5% as a result of uncertainty in corn and soybean spring planting. Despite a 63% tariff on American pork, Chinese demand is still substantial, though not at pre-trade war levels.

- August has historically been one of the more volatile trading months of the year, and this August may be no exception. Over the past fifteen years, the CBOE Volatility Index (the "VIX") has increased by an average of 11.7% in August relative to prior levels. One historically cited reason for past volatility is that many traders take August as a vacation time, leading to lower trading volume, which may have the effect of amplifying market volatility. In August of 2019, the S&P 500 Index posted moves of more than one percent in over half of the available trading days, with three daily drops of more than two percent. The volatility in August 2019 was driven by a trade war as well as economic uncertainty raised by the bond market; while there have been periodic talks, the trade war Is still ongoing and economic uncertainty has increased year-over-year as a result of the COVID-19 crisis. Thus, it can be argued that there remains a great possibility for volatility in the month of August.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US $		Inflation[2]
	Latest	2020[1]	2021[1]	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	-32.90	-8.54	1.93	10.20	0.54	-	-	1.19
China	54.60	-3.67	4.51	3.80	2.98	6.97	6.88	2.41
Japan	-2.20	-7.32	-0.53	2.90	0.02	105.78	108.58	0.00
United Kingdom	-8.50	-13.96	4.97	3.90	0.11	1.31	1.22	0.65
Euro Area	-40.30	-9.10	4.50	7.40	0.35	1.18	1.11	0.90
Germany	-34.70	-8.76	1.67	3.90	-0.56	1.18	1.11	0.57
France	-44.80	-14.07	5.22	8.10	-0.20	1.18	1.11	0.36
Italy	-41.00	-14.01	5.29	7.80	1.08	1.18	1.11	0.29
Canada	-8.20	-9.43	1.53	12.30	0.47	1.34	1.31	0.00
India	1.20	-7.28	8.07	11.00	5.84	74.93	68.74	5.10
Mexico	-53.20	-8.58	2.00	3.30	5.73	22.23	18.99	2.84
Brazil	-6.00	-9.10	2.40	12.90	6.29	5.20	3.76	1.88

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, Bureau of Economic Anaysis, Trading Economics, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD
2. In terms of CPI All Items

Capital Markets Overview

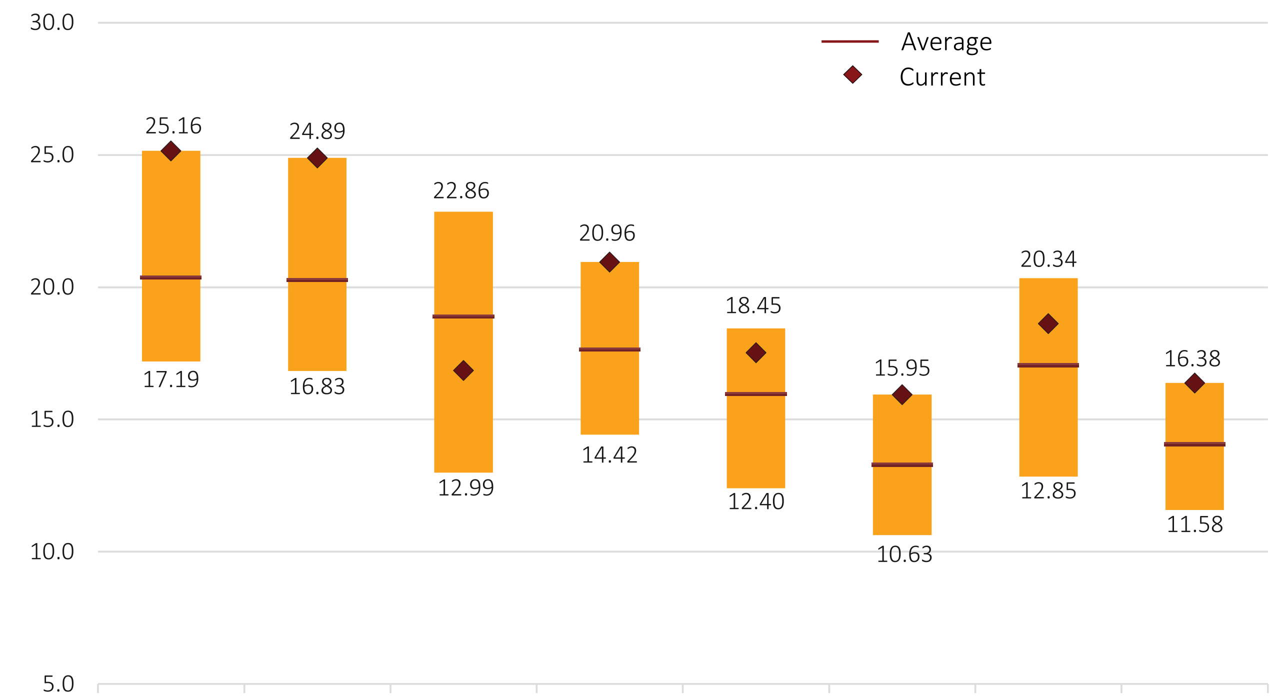
Category	Index	TRAILING 1-Mo	3-Mo	YTD	ANNUALIZED 1-Yr	3-Yr	5-Yr	10-Yr
Broad Market	MSCI World NR USD	4.78	12.75	(1.26)	7.23	7.52	7.52	9.61
	BBgBarc US Agg Bond TR USD	1.49	2.61	7.72	10.12	5.69	4.47	3.87
	Russell 3000 TR USD	5.68	13.88	2.01	10.93	11.39	10.89	13.59
	DJ Industrial Average TR USD	2.51	9.23	(6.14)	0.83	9.02	11.05	12.48
	NASDAQ Composite PR USD	6.82	20.88	19.76	31.43	19.18	15.94	16.90
	MSCI EAFE NR USD	2.33	10.42	(9.28)	(1.67)	0.63	2.10	5.02
	FTSE Treasury Bill 3 Mon USD	0.01	0.06	0.53	1.36	1.70	1.15	0.61
	Bloomberg Commodity TR USD	5.71	12.81	(14.80)	(12.07)	(5.09)	(4.54)	(5.91)
Domestic Equities	S&P 500 TR USD	5.64	12.87	2.38	11.96	12.01	11.49	13.84
	S&P MidCap 400 TR	4.61	13.67	(8.75)	(3.54)	3.64	6.14	11.10
	S&P SmallCap 600 TR USD	4.11	12.65	(14.48)	(8.68)	1.59	5.50	11.01
	Russell 1000 TR USD	5.86	13.91	2.88	12.03	12.02	11.31	13.85
	Russell 1000 Growth TR USD	7.69	19.93	18.26	29.84	20.91	16.84	17.29
	Russell 1000 Value TR USD	3.95	6.80	(12.95)	(6.01)	2.70	5.36	10.12
	Russell Mid Cap TR USD	5.87	15.36	(3.79)	2.04	7.30	7.83	12.21
	Russell Mid Cap Growth TR USD	7.99	21.62	12.48	18.09	17.09	12.96	15.21
	Russell Mid Cap Value TR USD	4.72	10.81	(14.22)	(8.41)	0.56	4.31	10.01
	Russell 2000 TR USD	2.77	13.32	(10.57)	(4.59)	2.69	5.10	10.07
	Russell 2000 Growth TR USD	3.44	17.56	0.27	6.00	8.77	7.49	12.58
	Russell 2000 Value TR USD	2.06	8.03	(21.92)	(15.91)	(3.90)	2.24	7.30
International Equities	MSCI ACWI Ex USA NR USD	4.46	12.75	(7.03)	0.66	1.39	3.22	4.52
	MSCI EAFE NR USD	2.33	10.42	(9.28)	(1.67)	0.63	2.10	5.02
	MSCI EAFE Growth NR USD	4.49	13.76	0.80	9.22	6.61	5.95	7.39
	MSCI EAFE Value NR USD	0.19	6.92	(19.12)	(12.34)	(5.41)	(1.89)	2.51
	MSCI Japan NR USD	(1.59)	4.23	(8.60)	1.33	1.74	3.02	5.55
	MSCI AC Asia Ex Japan NR USD	8.50	16.21	3.35	12.31	4.63	7.52	6.18
	MSCI Europe NR USD	3.84	12.99	(9.43)	(1.29)	0.27	1.60	4.89
	MSCI United Kingdom NR USD	1.41	3.96	(22.18)	(15.04)	(4.30)	(2.52)	2.86
	MSCI EAFE Small Cap NR USD	3.36	12.25	(10.19)	0.43	0.45	4.32	7.48
	MSCI EM NR USD	8.94	17.84	(1.72)	6.55	2.84	6.15	3.33
Fixed Income	BBgBarc US Govt/Credit TR USD	2.01	3.49	9.36	12.06	6.42	5.01	4.22
	BBgBarc US Govt/Credit Interm TR USD	0.75	2.14	6.06	7.95	4.53	3.54	3.09
	BBgBarc US Govt/Credit Long TR USD	5.31	7.04	18.81	24.32	12.14	9.64	8.26
	ICE BofA US High Yield TR USD	4.78	10.64	(0.23)	3.10	4.16	5.69	6.61
	Credit Suisse HY USD	4.49	10.37	(1.02)	2.17	3.76	5.34	6.42
	S&P/LSTA Leveraged Loan TR	1.96	7.03	(2.74)	(0.87)	2.50	3.29	4.22
	FTSE WGBI NonUS USD	5.12	6.64	6.21	6.77	3.65	4.29	1.83
	BBgBarc Gbl Agg Ex USD TR	4.44	5.82	5.08	5.94	3.10	3.82	1.92
REITs	FTSE Nareit All REITs TR	3.77	8.43	(11.81)	(6.38)	3.52	5.89	9.51
	Wilshire US REIT TR USD	4.38	6.42	(14.17)	(9.88)	1.30	3.68	8.66

USD - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

S&P 500 Price Level

Source: Standard & Poors

Current P/E vs. Trailing 5-Year High, Low, Average

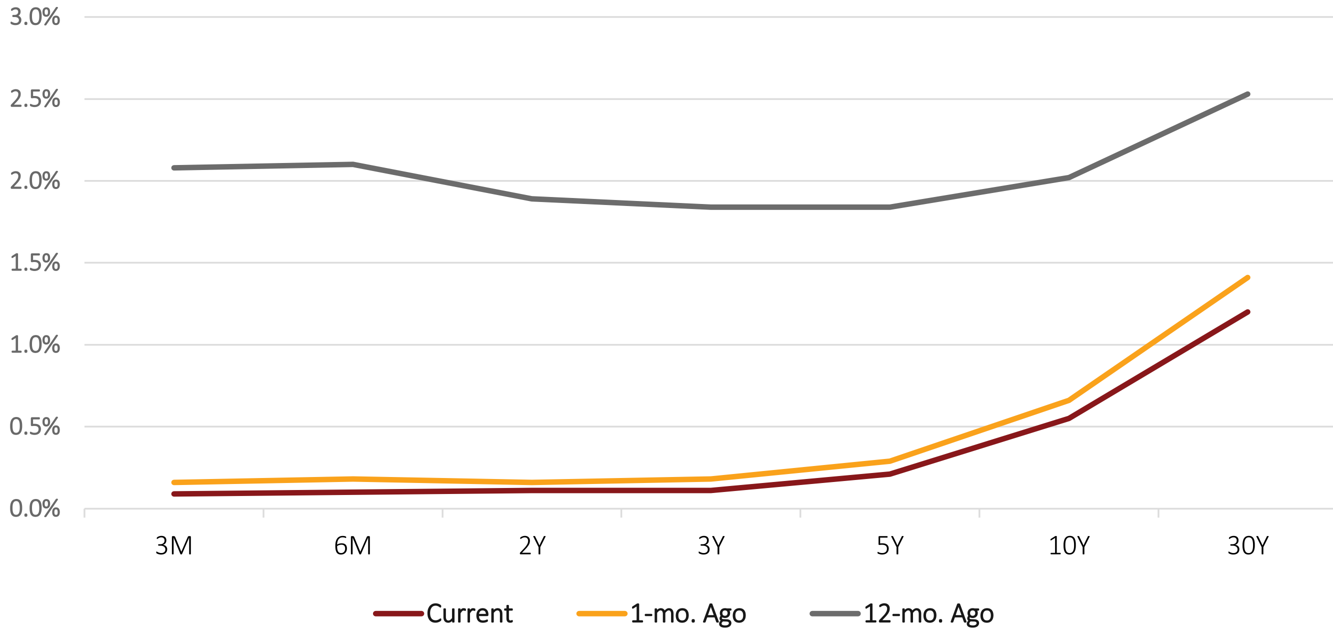


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Jul-20	Jul-20	Nov-17	Jul-20	May-17	Jul-20	Mar-17	Jul-20
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

U.S. Treasury Yield Curves

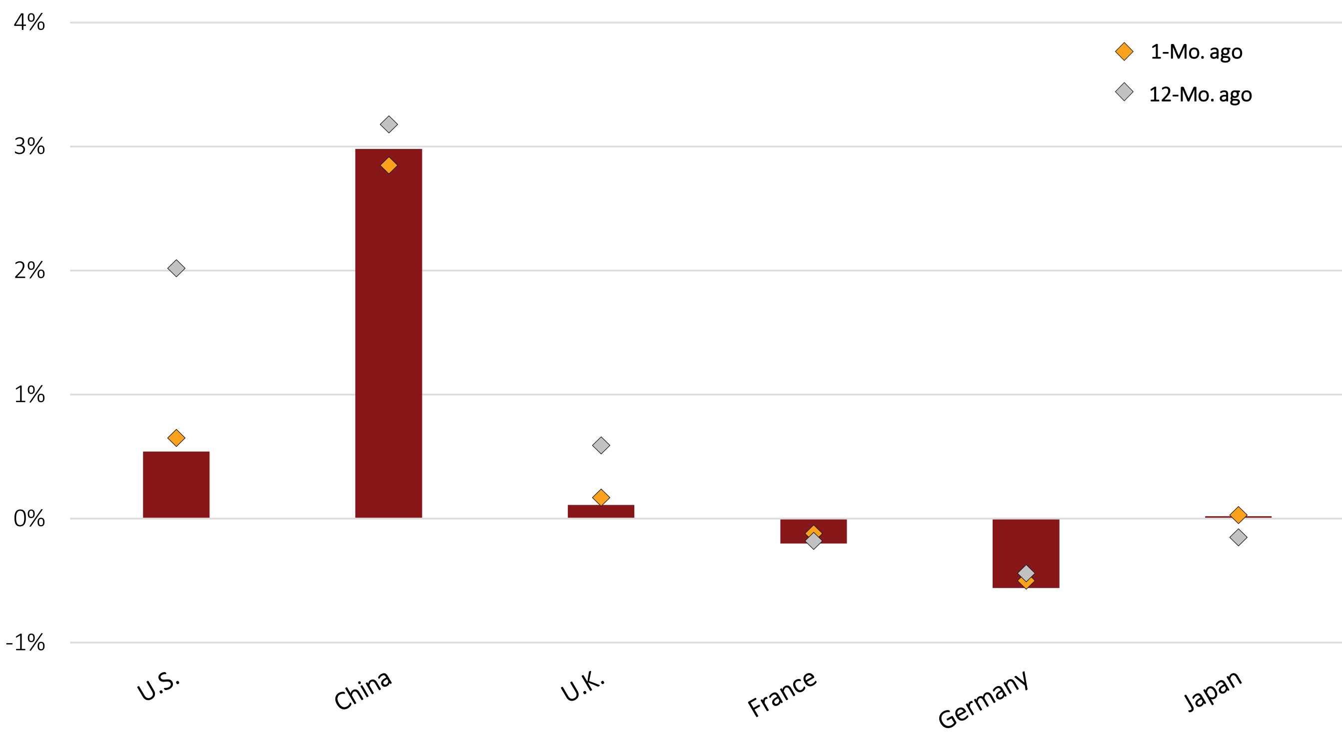
as of 7/31/2020



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

10-Year Sovereign Yields

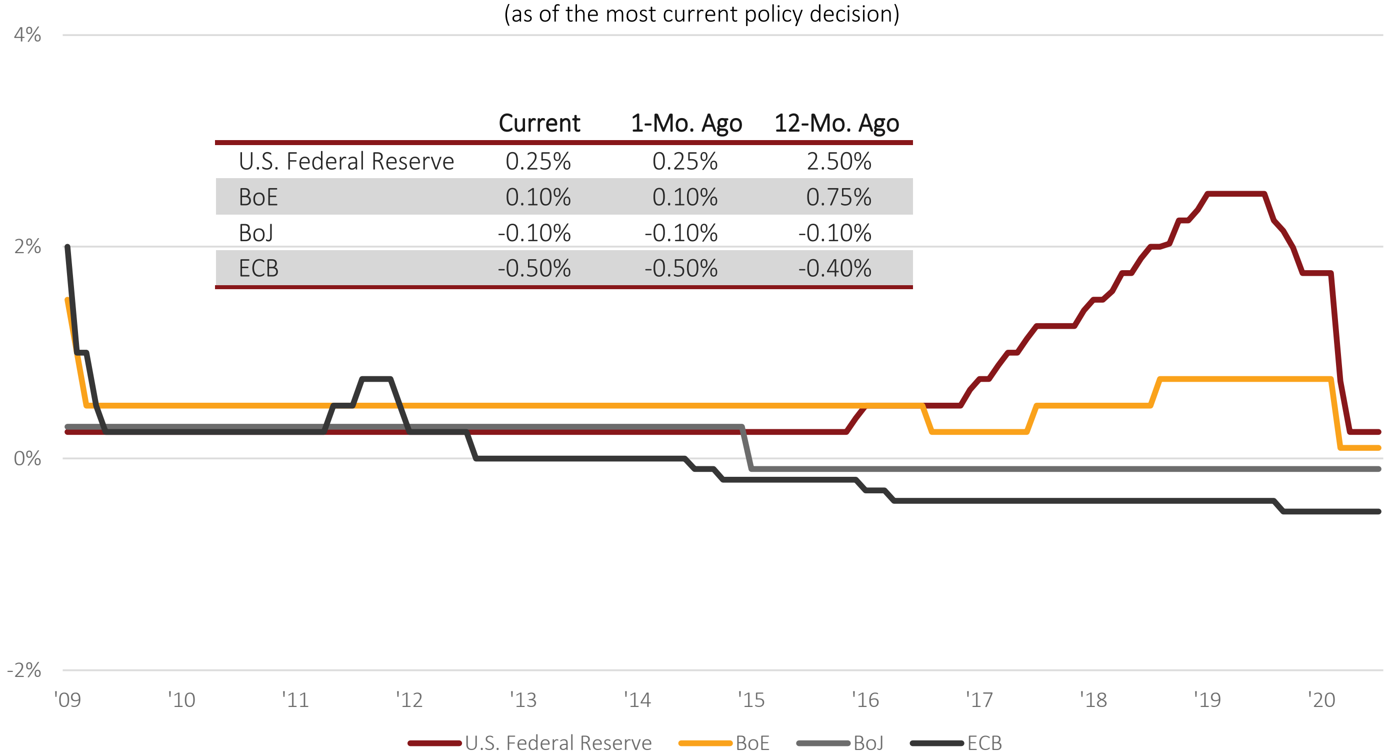
as of 7/31/2020 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal, Trading Economics

Central Bank Policy Rates

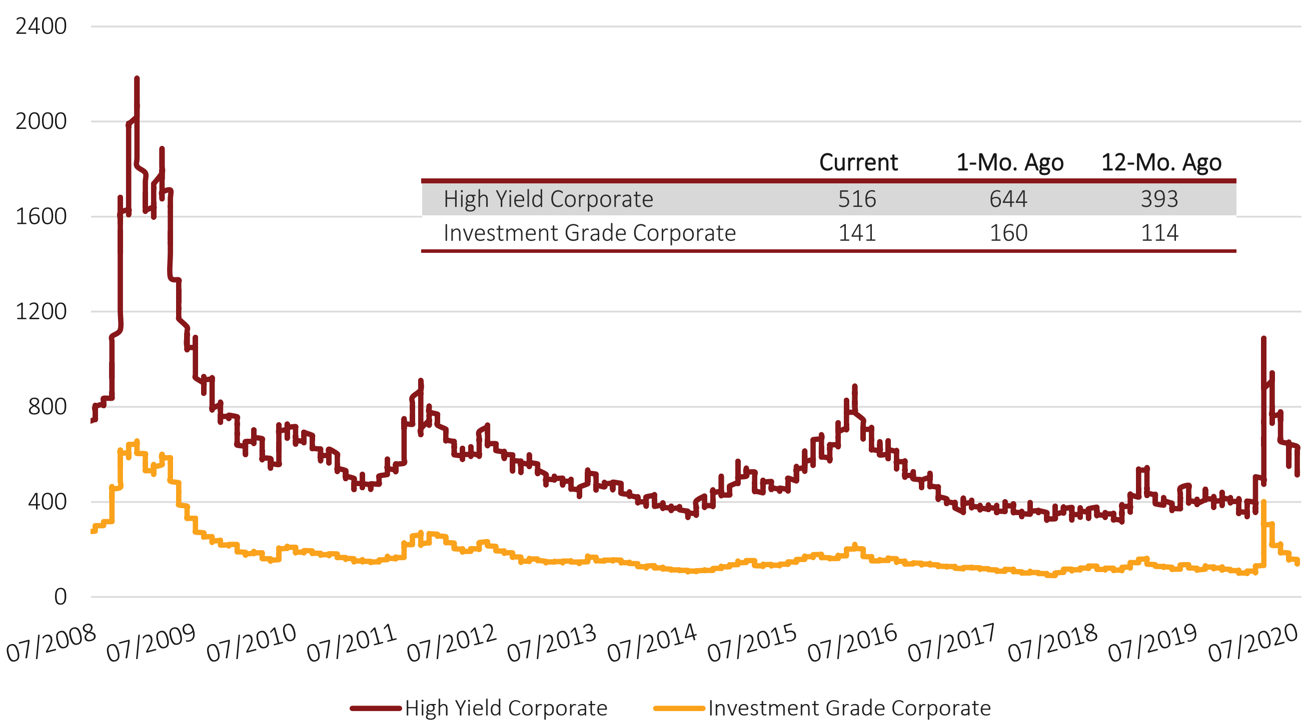
(as of the most current policy decision)



	Current	1-Mo. Ago	12-Mo. Ago
U.S. Federal Reserve	0.25%	0.25%	2.50%
BoE	0.10%	0.10%	0.75%
BoJ	-0.10%	-0.10%	-0.10%
ECB	-0.50%	-0.50%	-0.40%

Source: Federal Reserve Bank, Bank of England, European Central Bank, Trade Economics

Corporate Bond Average Spread (bps)



	Current	1-Mo. Ago	12-Mo. Ago
High Yield Corporate	516	644	393
Investment Grade Corporate	141	160	114