ECOMOMIC & MARKET
INSIGHTS

An Executive Summary for July 2020

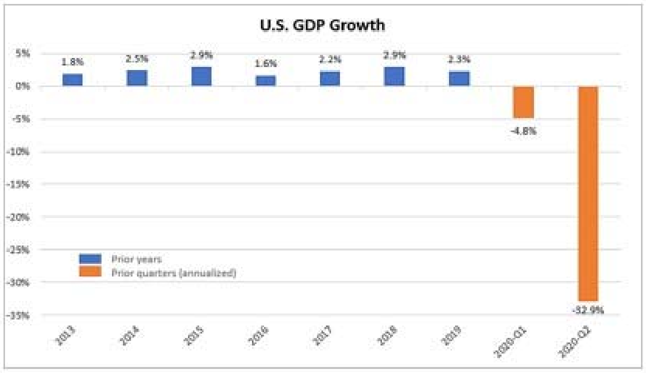
Most assets continued their ascent in July after the strong second-quarter gains. Global equities rose, even as the world continues to battle with the ubiquitous COVID-19. Record levels of new confirmed cases are being reported in some parts of the world, including the U.S. On a positive note, encouraging news on the vaccine front continues to occupy the headlines. More than 150 vaccines are in development around the world, and a select few are already in the critical "phase three" of clinical human trials. While we do not know for certain when an approved vaccine will be developed for worldwide distribution, we do know that the level of attention it continues to receive from researchers, doctors, health care practitioners and the like is an historic effort.

There are many beliefs and hypotheses on how the global economy can successfully rebound from the damage caused to countries impacted by the COVID-19-induced economic shutdown. However, many have suggested that there exists a vast disconnect between the economy (or consumers) and stock markets given where valuations and corporate fundamentals stand today. Despite the highest unemployment rate ever recorded in April, and a prevailing high-level north of 10% through July, some U.S. large-cap (i.e. S&P 500 Index) and technology-focused (i.e. Nasdaq Composite Index) indices have already reached or are near their highest levels ever. Throughout past market cycles, consumer sentiment levels and the S&P 500 have typically displayed some degree of positive correlation, but that has vanished during the pandemic. Many reasons for this have been suggested, but the two most likely include the dominance of the information technology sector within the S&P 500 and the enormous amount of fiscal and monetary support the Federal Reserve has injected to buoy the markets. A few large companies in the technology space, represented by the acronym FAANG+MSFT, have grown rapidly and their aggregate market capitalization dominates the rest of the index constituents. Separately, the Fed stepped in to offset the blow felt by some companies and purchased individual corporate bonds along with some corporate bond ETFs – the first time in history that these two actions occurred.

All sectors of the S&P 500 rose, besides energy which fell 5.1%. In particular, the travel and tourism industry's demand level lagged, as the brunt of the impact from COVID-19 was felt. Treasury yields declined for the month and show little signs of rising in the near-term. In conjunction with the Fed's support of corporate bonds mentioned above, this led to strong returns across all fixed income sectors for the month.

As was widely anticipated due to the rapid shutdown of the country beginning in March to mitigate the spread of COVID-19, U.S. GDP contracted sharply in the second quarter, by an annualized rate of 32.9%. Elsewhere around the world, the impact was also profound. Italy's second-quarter GDP fell by 12.4% and Spain's by 18.5%, both annualized rates. In contrast, China's GDP sharply rebounded in Q2 as the country used supportive governmental policies to mitigate the pandemic's impacts on economic activity. Emerging markets overall rose strongly in USD terms as COVID-19 cases retreated in some countries and the dollar weakened relative to other currencies. The dollar's decline has been spurred by increasing levels of new cases in the U.S. which threaten to curtail the economic rebound.

Looking ahead there are many uncertainties related to COVID-19, vaccine development efforts, and future global economic growth. In times like these, the best course of action is to maintain a diversified portfolio designed to help you reach your long-term goals.



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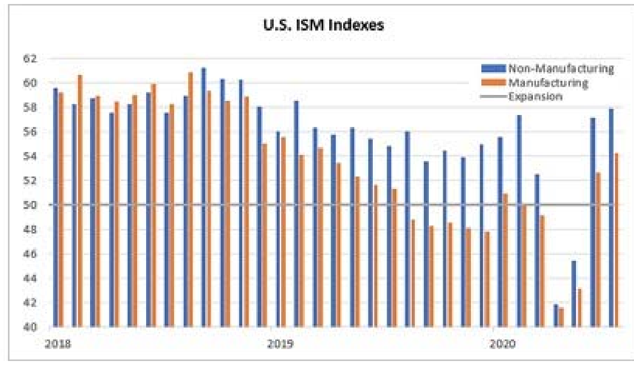

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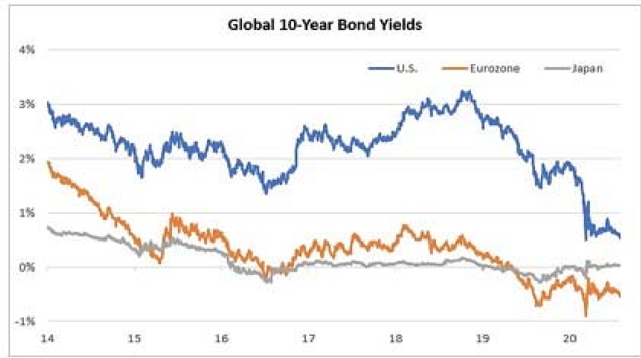

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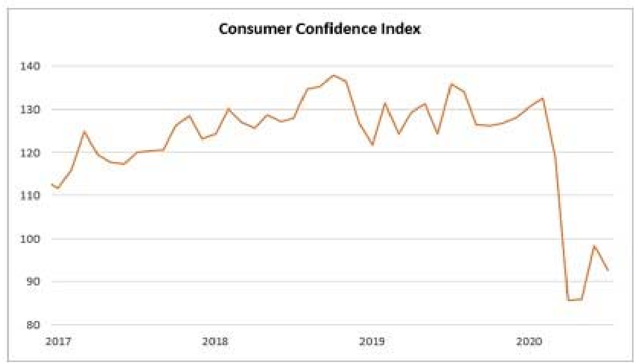
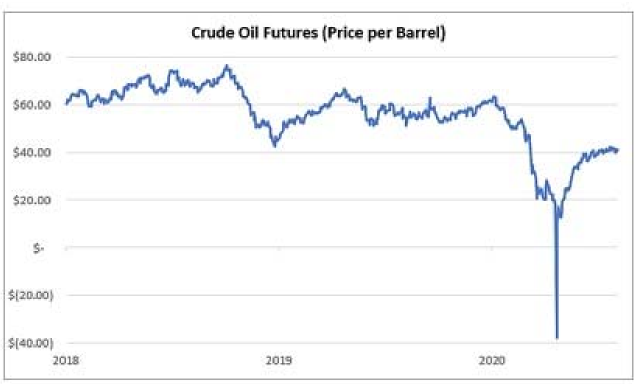


Conference Board



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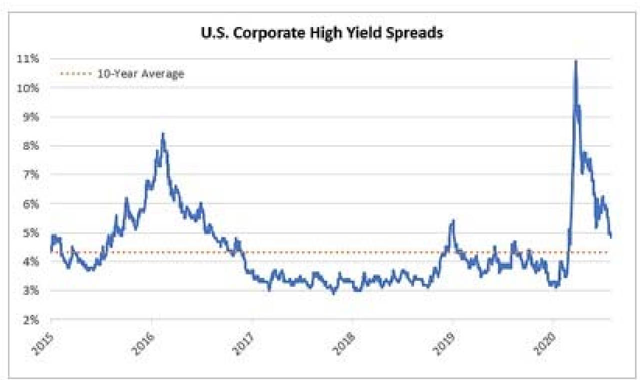

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