

# ECONOMIC & MARKET INSIGHTS

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## An Executive Summary for August 2020

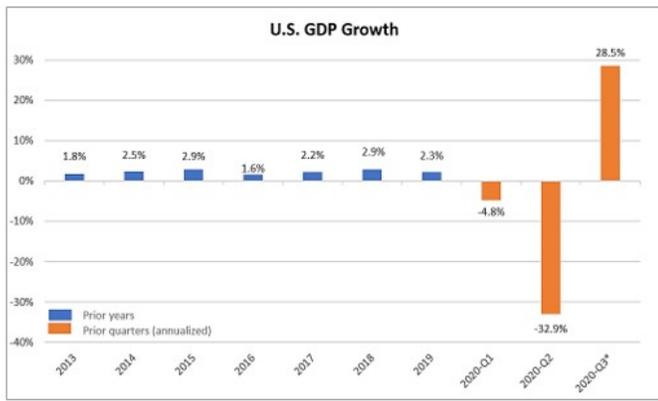
The global equity markets surged during August, once again led by U.S. stocks. As businesses and schools continued to reopen, investors seemed to look past the upswing in new COVID-19 cases and mixed economic data. Steady monetary support from the Federal Reserve and the promise of additional fiscal spending supported equities as well as cyclical commodities. Fixed income returns for the month were lackluster with low yields compounded by price declines in long-term and lower quality bonds. Historically low interest rates have made equities more attractive relative to fixed income by increasing the value of future earnings and lowering the return offered by bonds.

The technology, health care, and cyclical consumer sectors outperformed for the month. The energy sector continued to sharply lag. Growth stocks, particularly in the U.S. technology sector, are supported by favorable earnings growth but are expensive relative to other sectors. Market volatility expectations, as measured by the CBOE Volatility Index (VIX), remained above average, but much lower than the levels seen in March of this year.

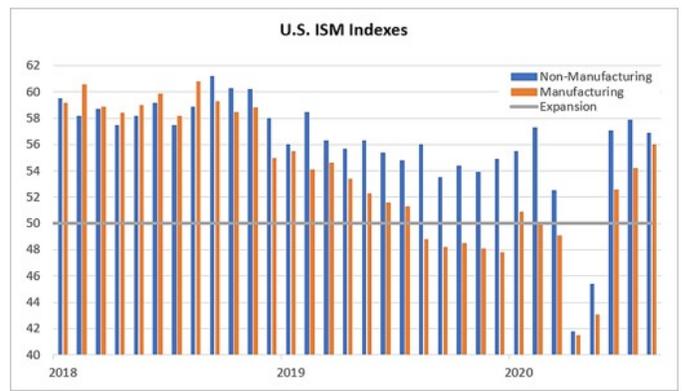
The Fed announced they would be implementing a more flexible approach that would allow inflation to exceed the current 2% target. This raised expectations for interest rates and inflation over the long term. Inflation sensitive investments such as TIPs benefited but long-term bond prices declined. Credit concerns remain elevated in the municipal and corporate bond markets for some issuers. Overall, higher yielding bonds have outperformed Treasuries and high-quality, credit-sensitive bonds in recent months.

Global economic growth is expected to sharply rebound in the third quarter. U.S. economic activity, as measured by the Institute for Supply Management (ISM) Indexes, has now expanded for three months. The Atlanta Fed GDP estimate for third-quarter annualized growth is 28.5%. Economic growth is expected to rebound sooner and be more robust outside the U.S. The U.S. dollar continued to weaken – this should be positive for U.S. companies that can benefit from more competitive exports. Employment data was better than predicted but unemployment remains elevated. U.S. consumers are being conservative and saving more. Because of this, consumer sentiment has weakened which could dampen the domestic economic rebound. Oil prices rallied due to a reduction in supply and a favorable outlook for global economic recovery. Other cyclical commodities such as copper also gained.

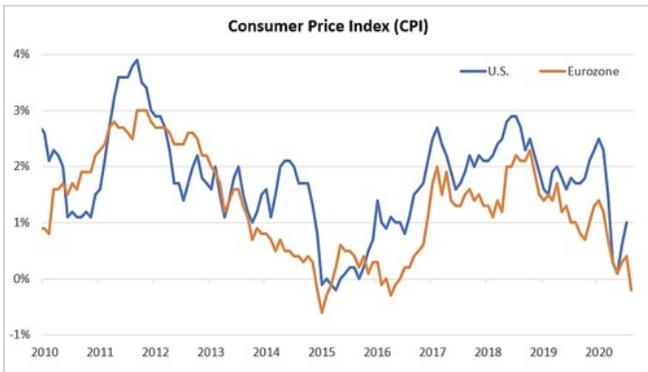
In the near term, the upcoming U.S. election is widely expected to usher in a period of extreme uncertainty and ongoing tensions with China could once again roil the stock markets. Equity markets are poised to be disappointed if efforts to conquer the coronavirus pandemic and accommodative government policy falls short. There has been considerable optimism that an effective vaccine for COVID-19 will soon be available and that new treatments will mitigate the long-term health effects of the virus.



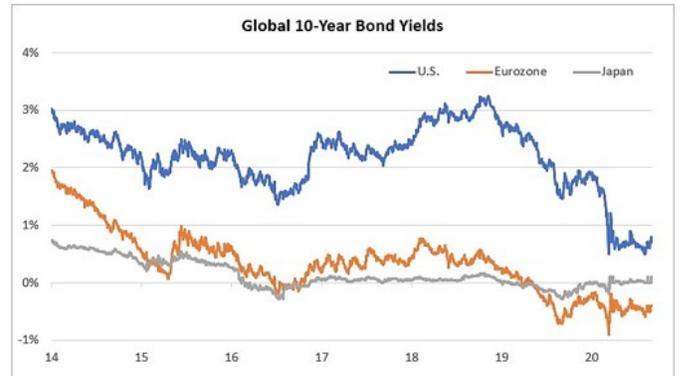
U.S. Department of Commerce, \*Atlanta Fed GDP Now estimate



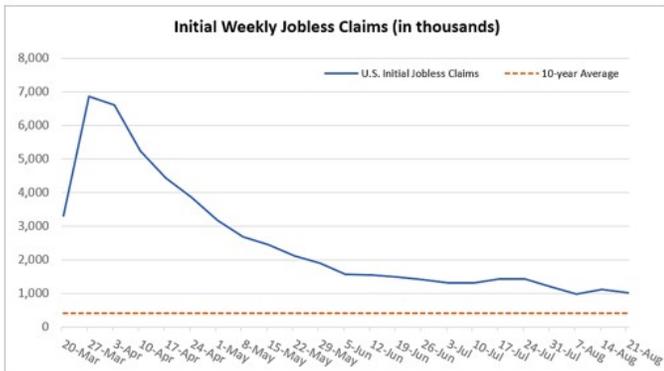
Institute for Supply Management



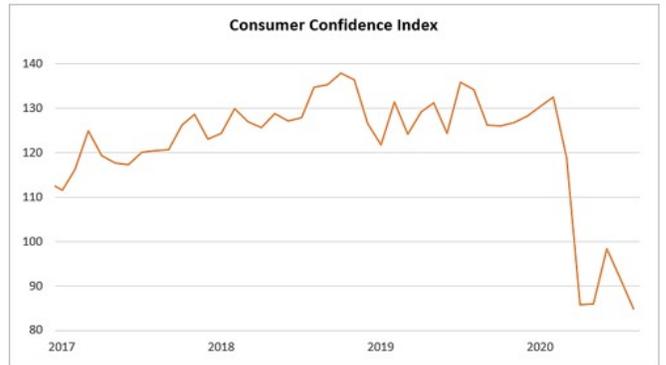
U.S. Bureau of Labor Statistics



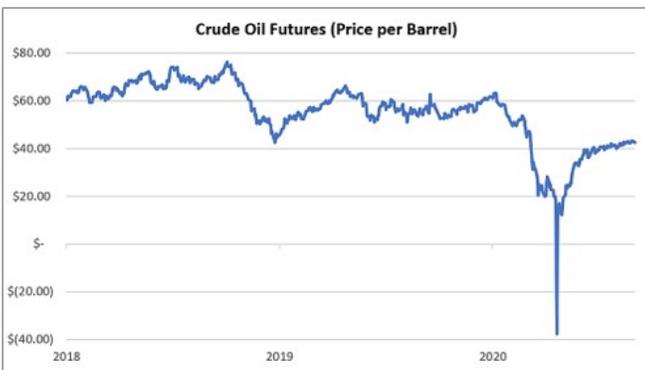
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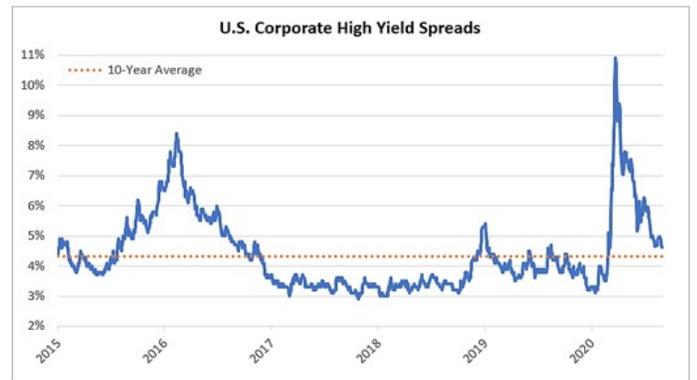
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