WEEKLY UPDATE

CARY STREET PARTNERS

JUNE 8, 2020

EQUITY MARKETS

Equity markets turned in a great performance this week, with the S&P 500 Index adding 4.91%[1] for the week. Of note has been stronger international equity performance, as overseas markets have broken through resistance. In the U.S., small cap and value sectors have played catch up over the last few weeks and outperformed. Markets continue to look through the near-term economic carnage, focusing on declining COVID rates and consequent economic re-openings. Equities have been able to absorb short-term overbought indications to this point.

In addition to infection rate progress, we have focused on the CBOE Volatility Index (VIX) as the other paramount data point. That reading continues to moderate, currently sitting at around 24, with a 10-week average near 35.[2] The downtrend of implied forward volatility lowers the probability of larger pullbacks. A powerful finish to the week occurred on Friday following the huge beat in May unemployment figures. More about that below. It is a good lesson in why good economists do not even try to forecast.

ECONOMIC NEWS

The U.S. labor market surprised economic forecasts that were predicting a surge in unemployment comparable to the Great Depression. Instead, payrolls rose by 2.5 million in May, contrary to predictions for a decline of 7.5 million. The unemployment rate fell to 13.3%, beating the consensus estimate of 19.5%.

The payrolls number suggests that the economy is recovering faster than anticipated. The data surprise caused U.S. stocks to jump on Friday. Optimism regarding a recovery is occurring while many large states remain on lockdown such as New York, New Jersey and California. A rebound in the labor market indicates that the economy may have hit bottom in April.

The improvement in employment was not limited to the U.S. Canada reported a net change in employment gaining 289,600 jobs. Economists were predicting employment to fall by 500,000.[3]

CREDIT MARKETS

Investors' appetite for yield and risk have returned. High-Yield ETFs reported inflows of $5.75 billion for the week ending June 3.[4] High-Yield spreads have fallen to below 600 basis points after peaking at 1,100 basis points in March.[5] Junk bond issuers can issue debt with ease in the capital markets, as indicated by offerings that are oversubscribed.

High-yield asset classes that have not fully recovered are showing signs of investor demand. Collateralized Loan Obligations (CLO) are bonds that bundle risky leverage loans into pools. These bonds have been underperforming due to concerns on the quality and amount of collateral in each pool. Prices on leveraged loans rose above 90 cents for the first time since March.[6]

1 MarketWatch
2 Fairlead Strategies, LLC
3 All Economic News data sourced from Bloomberg
4 Refinitiv Lipper
5 Bloomberg Barclays US Corporate High Yield Total Return Index – OAS
6 S&P/LSTA Leveraged Loan Index

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 6.05.2020
US EQUITY BENCHMARKS	
S&P 500 TR USD	-0.26
DJ US TR USD	-0.32
RUSSELL 1000 TR USD	-0.06
RUSSELL 1000 GROWTH TR USD	8.64
RUSSELL 2000 TR USD	-9.11
INTERNATIONAL EQUITY BENCHMARKS	
MSCI FV ACWI EX USA NR USD	-8.30
MSCI FV ACWI NR USD	-3.71
US FIXED BENCHMARKS	
BBGBARC US TREASURY BILLS TR USD	0.64
BBGBARC US AGG BOND TR USD	4.95
BBGBARC US TREASURY US TIPS TR USD	4.07
BBGBARC US CREDIT TR USD	3.32
ICE BOFA US HIGH YIELD TR USD	-2.58
ICE BOFA US MBS TR USD	3.63
INTERNATIONAL FIXED BENCHMARKS	
BBGBARC GLOBAL AGGREGATE TR USD	2.10
US FIXED MUNI BENCHMARKS	
BBGBARC MUNICIPAL TR USD	1.25
REAL ASSETS	
FTSE NAREIT ALL EQUITY REITS TR USD	-7.66
SPDR® GOLD SHARES	10.35

Source: Morningstar

Past performance is no guarantee of future results.