WEEKLY UPDATE

CARY STREET PARTNERS

JUNE 15, 2020

EQUITY MARKETS

Equity markets finally ran into a down week, following a string of weeks to the upside. For the week, the S&P 500 Index fell 4.78%.[1] Stocks that were laggards for the year, then leaders for the last month, were laggards again this week. Banks and energy companies are examples. The 2020 winners, large growth stocks, found predominately in the technology space, were relative out-performers this week. The dramatic sell-off on Thursday, June 11th, was triggered by spiking COVID infection rates in several large states including Texas, Arizona, and California. Progress or setbacks regarding COVID remain the primary focus of equity markets. News related to treatments and vaccines will also be key and should be released in a steady diet over the next few months. An additional headwind for the week, was that entering this period there were a high percentage of stocks showing short term overbought indications. In other words, there was a degree of upside exhaustion present heading into the week creating the conditions for a sell off on any bad news. Friday saw some recovery, with the S&P re-capturing ground from the Thursday tape.

The other important data point, forward volatility as indicated by the CBOE Volatility Index (VIX), spiked higher late in the week, trading back into the 40 range. It remains important that volatility, which is still very elevated, continues the downtrend we have seen since the stratospheric levels of March. The daily spot price moves around a lot, which is why we track this on a ten- week average. That average has trended downward to a current reading slightly below 35.[2] It will need to trade below that level for the downtrend to continue. Lower forward volatility readings reduce the probability of large, sustained pullbacks.

ECONOMIC NEWS

The Federal Open Market Committee (FOMC) met last week and kept the Federal Funds target rate within the 0% to 0.25% range. The Federal Reserve committed to buying bonds maintaining support for the fixed income markets as well as keeping interest rates low to support the U.S. economy.

The FOMC released forecasts for the economy and interest rates. All 17 voting policy makers expect the Federal Funds rate to remain at the current level, near 0%, through the end of 2021. The chart below includes Central Bank projections as well as consensus forecasts.

FOMC FORECASTS

	2018	2019	2020	2021	2022
REAL GDP (YOY)	2.90%	2.30%	-6.50%	5.00%	3.50%
PCE CORE (YOY) INFLATION	1.95%	1.61%	1.00%	1.50%	1.70%
UNEMPLOYMENT	3.89%	3.67%	9.30%	6.50%	5.50%
FEDERAL FUNDS PROJECTION			0.10%	0.10%	2.50%

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 6.12.2020
US EQUITY BENCHMARKS	
S&P 500 TR USD	-4.98
DJ US TR USD	-5.14
RUSSELL 1000 TR USD	-4.82
RUSSELL 1000 VALUE TR USD	-15.68
RUSSELL 1000 GROWTH TR USD	5.39
RUSSELL 2000 TR USD	-16.28
GLOBAL EQUITY BENCHMARKS	
MSCI FV ACWI EX USA NR USD	-11.56
MSCI FV ACWI NR USD	-7.70
US FIXED BENCHMARKS	
BBGBARC US TREASURY BILLS TR USD	0.64
BBGBARC US AGG BOND TR USD	5.71
BBGBARC US TREASURY US TIPS TR USD	5.08
BBGBARC US CREDIT TR USD	3.82
ICE BOFA US HIGH YIELD TR USD	-4.04
ICE BOFA US MBS TR USD	3.81
GLOBAL FIXED BENCHMARKS	
BBGBARC GLOBAL AGGREGATE TR USD	2.84
US FIXED MUNI BENCHMARKS	
BBGBARC MUNICIPAL TR USD	1.82
REAL ASSETS	
FTSE NAREIT ALL EQUITY REITS TR USD	-11.85
SPDR® GOLD SHARES	13.62
ALTERNATIVE	
WILSHIRE FOCUSED LQD ALTERNATIVE TR USD	-2.81

Source: Morningstar

GDP growth for 2020/2021 period is forecast to be negative, however the Federal Reserve is projecting better unemployment numbers than consensus forecast. All agree that inflation will remain below the target rate of 2%[3], the case for the last decade. The consensus surveys have improved over the last month.

CONSENSUS SURVEY

	2018	2019	2020	2021	2022
REAL GDP (YOY)	2.90%	2.30%	-5.70%	4.00%	2.80%
PCE CORE (YOY) INFLATION	1.95%	1.61%	1.00%	1.30%	1.70%
UNEMPLOYMENT	3.89%	3.67%	9.50%	7.50%	6.00%

Equity and fixed income markets viewed the FMOC policy statement and the following speech by Jerome Powell as mildly negative. Current forecasts are not good, and the Central Bank will continue to support the fixed income markets through quantitative easing and multiple lending facilities to help consumers and businesses. To date, the Federal Reserve has done a very good job in support of the U.S. economy. Every six weeks the FOMC will meet and release a statement on policy and current economic conditions.

1 MarketWatch
2 Fairlead Strategies, LLC
3 All Economic News data sourced from Bloomberg