WEEKLY UPDATE

CARY STREET PARTNERS

AUGUST 17, 2020

EQUITY MARKETS

Equities were mixed last week, with the markets essentially moving sideways as reflected by a .64%[1] return for the S&P 500 Index. The equity market flirted with the February high all week but has yet to break through that highly watched resistance level. The CBOE Volatility Index (VIX) traded in the low twenties for most of the week, below its ten-week average of 28.12.

COVID progress in the U.S. remains mixed. Medical science has made great progress in treatments and vaccine development has been rapid with multiple candidates currently in large scale, phase-three trials. Production for these candidates has moved parallel to trials which will allow for rapid market delivery upon FDA approval. The path to delivery falls on a timeline around the beginning of next year. Medical developments are taking on even greater significance as mitigation efforts in the U.S. remain piecemeal. Testing in particular remains inadequate, with a large percentage of tests taking longer than three days to report results, rendering them worthless.

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A question we hear a lot is "how can the stock market be at these levels with current economic conditions"? The answer is multifaceted, as inputs to stock prices are many. The most direct answer is that the stock market is not simply a reflection of the U.S. economy. This disaster has impacted U.S. main street business to a much greater extent than public corporations, many with flexible, global business models. If there was an average price valuation of one location restaurants and similar businesses in America it would look horrific. These very small businesses are not reflected in public markets. They are, however, huge and essential employers, particularly for the bottom quarter of wage earners. An additional factor is that within the public equity markets, very visible and economically vulnerable industries carry the least weight. They are the smallest portion of the pie. That was the case going into this crisis and remains so to this point.

ECONOMIC NEWS[2]

The primary economic news last week was the weekly unemployment claims figures falling below 1 million for the first time since March. This better-than-expected result pushed Treasury yields higher on Thursday.

Earlier in the week, we saw a notable inflation number for July, with core CPI increasing 1.6% year over year for the month. One month does not make a trend, however this is a large one-month increase. This is early evidence that the rapid and large money supply increase that the Federal Reserve has engineered is working. A primary task of the central bank is to avoid deflationary spirals that risk depression. The money supply increase will support nominal GDP growth going forward and keep the target inflation rate of 2% within range. Of note also is that even with the huge increase in supply the inflation rate is still below that target. This speaks to extent of the economic shock.

[1] MarketWatch

[2] All Economic News sourced from Bloomberg

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 8.14.2020
US EQUITY BENCHMARKS	
SPDR® S&P 500 ETF TRUST	5.70
ISHARES DOW JONES US ETF	5.59
ISHARES RUSSELL 1000 ETF	5.99
ISHARES RUSSELL 1000 VALUE ETF	-9.76
ISHARES RUSSELL 1000 GROWTH ETF	21.10
ISHARES RUSSELL 2000 ETF	-4.63
INTERNATIONAL EQUITY BENCHMARKS	
ISHARES MSCI ACWI EX US ETF	-3.91
ISHARES MSCI ACWI ETF	2.00
US FIXED BENCHMARKS	
ISHARES CORE US AGGREGATE BOND ETF	6.78
ISHARES TIPS BOND ETF	8.08
ISHARES IBOXX $ INVMT GRADE CORP BD ETF	8.17
ISHARES IBOXX $ HIGH YIELD CORP BD ETF	-1.06
ISHARES MBS ETF	3.76
INTERNATIONAL FIXED BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	5.62
US FIXED MUNI BENCHMARKS	
ISHARES NATIONAL MUNI BOND ETF	3.84
REAL ASSETS	
ISHARES GOLD TRUST	27.51
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	-20.07

Source: Morningstar

Past performance is no guarantee of future results.