

WEEKLY UPDATE

AUGUST 31, 2020

CARY STREET
PARTNERS

EQUITY MARKETS

Equities advanced broadly over the course of last week, with the S&P 500 Index adding 3.26%.¹ Price gains in the average were led higher first by blowout earnings announced by Salesforce, and later in the week by reaction to Fed Chairman Powell's policy speech. The Salesforce announcement continued a string of very strong earnings results posted by technology companies.

Fed Chairman Powell announced a new inflation targeting policy in Thursday's much anticipated speech. Going forward the Fed intends to target AVERAGE inflation of 2%, as opposed to a 2% top. This means that monetary policy will allow for inflation to run above 2% (to a limited extent) in order to average 2%. Prior policy has not reached a 2% figure, as tightening began prior to ever reaching the number. This is a very important policy change, as it will allow for larger nominal GDP, which means more employment and higher tax receipts. It also continues to head off deflation. In general, this policy is positive for equities, as a low discount rate increases the multiple for the market, and for homeownership.

Do NOT confuse Fed monetary policy with all interest rates. The effect of this policy, if properly executed, will likely be a steepening of the yield curve. "Lower for longer" applies to short term, overnight rates. This is one tool, but not the only tool in the Fed toolkit. Longer rates are not controlled by the Fed, higher inflation will lead to higher long Treasury rates.

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On the COVID front Abbott Labs received approval for an inexpensive, rapid antigen test. This test will allow for health care professionals to receive results in 15 minutes. It may be a breakthrough for the testing shortfall we have experienced in the U.S. It lets providers test a lot of people for active infections, a lot faster, on a single use test. This could be particularly meaningful for travel and hospitality industries in screening customers.

CREDIT MARKETS²

Long-term U.S. Treasury yields rose as the yield curve steepened following Chairman Powell's speech. The yield spread between 2-Year Treasuries and 10-year Treasuries is now .60%. This is an increase of .20% since the beginning of August. The yield curve was steepest on March 19th of this year at .68%.

ECONOMIC RELEASES²

■ **NEW HOME SALES** in the U.S. jumped to the highest level in 14 years. Single family home sales climbed 13.9% in July to 901,000.

¹ MarketWatch

² All Credit Market and Economic Release data sourced from Bloomberg

WEEKLY BENCHMARKS

GROUP/INVESTMENT	YTD Return (Cumulative) 8.28.2020
US EQUITY RETURNS	
SPDR® S&P 500 ETF TRUST	10.01
ISHARES DOW JONES US ETF	9.88
ISHARES RUSSELL 1000 ETF	10.42
ISHARES RUSSELL 1000 VALUE ETF	-8.63
ISHARES RUSSELL 1000 GROWTH ETF	29.50
ISHARES RUSSELL 2000 ETF	-4.57
GLOBAL EQUITY RETURNS	
ISHARES MSCI ACWI EX US ETF	-2.57
ISHARES MSCI ACWI ETF	5.12
US FIXED INCOME RETURNS	
ISHARES SHORT TREASURY BOND ETF	0.84
ISHARES CORE US AGGREGATE BOND ETF	6.52
ISHARES TIPS BOND ETF	8.98
ISHARES IBOX \$ INVMT GRADE CORP BD ETF	7.31
ISHARES IBOX \$ HIGH YIELD CORP BD ETF	-0.22
ISHARES MBS ETF	3.84
GLOBAL FIXED INCOME BENCHMARKS	
ISHARES CORE GLOBAL AGGT BD ETF USD DIST	5.90
US FIXED INCOME MUNI RETURNS	
ISHARES NATIONAL MUNI BOND ETF	3.17
REAL ASSETS	
ISHARES GOLD TRUST	28.34
SPDR® DOW JONES GLOBAL REAL ESTATE ETF	-18.57

Source: Morningstar

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- **CONSUMER CONFIDENCE** in August fell by 6.9 points to 84.8 from 91.7 in the prior month, below expectations of 93.0.
- **U.S. DURABLE GOODS** orders rose in July by 11.2% more than double estimates of 4.8%. Automobile demand surged for the month and contributed to orders.
- **INITIAL JOBLESS CLAIMS** fell by 98,000 to 1.006 million in the week.
- **U.S. PENDING HOME SALES** rose in July 5.9% more than forecast to the highest level since 2005. Expectations were for an increase of 2.0%.
- **PERSONAL INCOMES** rose 0.4%, compared to estimates for a 0.2% decrease. Personal spending increased 1.9%, beating expectations of 1.6%.

Past performance is no guarantee of future results.

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