

# Monthly Economic Update

August 2020

## U.S. Markets

Stock prices rallied in July as further development of a COVID-19 vaccine and better-than-expected corporate financial reports encouraged investors.

The S&P 500 gained 5.5 percent, while the Nasdaq Composite picked up 6.8 percent. The Dow Industrial Average, which has lagged much of the year, rose 2.4 percent.<sup>1</sup>

## Confident Investors

Stock prices started the month elevated, thanks to early results from a COVID-19 vaccine trial, a better-than-expected jobs report, and a higher-than-anticipated reading on manufacturing activity.

Despite multiple states reporting increases in infections, stocks continued their climb, especially in the mega-cap technology companies. Meanwhile, investors remained confident, even as multiple regional Federal Reserve presidents warned of a bumpy economic recovery.

## Earnings Update

As of July 31, more than half of the companies comprising the S&P 500 Index reported their earnings. Of these companies, 84 percent reported earnings in excess of analysts' estimates, with the Health Care and Technology sectors leading the way.<sup>2</sup>

In the final week of trading, investor sentiment alternated between worry and optimism. A disappointing jobless claims report and a stunning second-quarter GDP number caused some worry. But the mega-cap technology names reported exceptional earnings, capping off a strong month for the equity markets.

## Sector Scorecard

Industry sectors were uniformly higher in July, except for a loss in the Energy sector (-4.36 percent). Gains were made in Communication Services (+6.09 percent), Consumer Discretionary (+6.72 percent), Consumer Staples (+7.03 percent), Financials (+3.80 percent), Health Care (+6.07 percent), Industrials (+4.80 percent), Materials

(+7.01 percent), Real Estate (+4.28 percent), Technology (+3.11 percent), and Utilities (+7.62 percent).<sup>3</sup>

## What Investors May Be Talking About in August

In the last ten years, August has gained a reputation for being one of the more volatile months of the year.

For instance, in August of 2019, the S&P 500 Index posted moves of more than one percent in 11 of the 22 trading days, with three daily drops of more than 2.6 percent. At the time, trade friction with China was escalating, and some market watchers suggested that the bond market was signaling a recession on the horizon.<sup>4,5</sup>

One of the reasons for the past volatility is that some traders are away on vacation, resulting in lighter volume, which may have the effect of amplifying market volatility. But this year may be different since many people are staying closer to home due to the pandemic.

This August will stand on its own merits. But investors should be prepared for headlines that could result in outsized moves.

## World Markets

Overseas markets were mixed. Optimism for the development of a COVID-19 vaccine was offset by continued tension between the U.S. and China. The MSCI-EAFE Index advanced 2.23 percent.<sup>6</sup>

European stocks trended lower as multiple economies continued to reopen, and the European Union agreed to a fiscal stimulus package for member nations. German shares edged higher, while France lost ground.<sup>7</sup>

Pacific Rim stocks were mixed. Australia rose 0.51 percent, while Japan fell 2.59 percent. The volatile Argentinian market rose nearly 28 percent.<sup>8</sup>

## Indicators

**Gross Domestic Product:** The economy contracted by an annualized rate of 32.9 percent in the second-quarter GDP.<sup>9</sup>

**Employment:** The unemployment rate declined in June to 11.1 percent (from May's 13.3 percent rate) as the economy added 4.8 million jobs.<sup>10</sup>

**Retail Sales:** Consumer spending rose 7.5 percent in June, aided by the reopening of malls and restaurants. Sales were largely driven by autos, clothing, furniture, and electronics.<sup>11</sup>

**Industrial Production:** Output by the nation's manufacturers, utilities, and mines increased by 5.4 percent. Manufacturing jumped by 7.2 percent.<sup>12</sup>

**Housing:** Housing starts leaped by 17.3 percent; though, new construction remains behind last year's pace.<sup>13</sup>

Posting its largest monthly jump ever, existing home sales soared 20.7 percent in June.<sup>14</sup>

New home sales rose 13.8 percent, touching its highest sales pace in 13 years.<sup>15</sup>

**Consumer Price Index:** Consumer inflation jumped 0.6 percent in June, which economists attributed to a snapback in prices from COVID-19-related declines in the previous three months. Gasoline prices soared 12.3 percent, accounting for more than half of the month's increase in the CPI.<sup>16</sup>

**Durable Goods Orders:** Durable goods orders increased 7.3 percent, as an 86 percent leap in orders for new cars and trucks offset a sharp drop in aircraft manufacturing.<sup>17</sup>

## The Fed

As expected, the Federal Reserve left its benchmark interest rate unchanged at its two-day meeting, which ended July 29. The Fed also reiterated its commitment to bond purchases and the lending and liquidity programs it currently has in place.<sup>18</sup>

MARKET INDEX	Y-T-D CHANGE	July 2020
DJIA	-7.39%	2.38%
NASDAQ	19.76%	6.82%
S&P 500	1.25%	5.51%

BOND YIELD	Y-T-D	July 2020
10-YR TREASURY	-1.38%	0. 54%

Source: Yahoo Finance, July 31, 2020

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