## UP, UP AND AWAY

Global capital markets continued to look beyond the seemingly inexorable rise of COVID-19 infections and deaths worldwide during the month of August. Although restrictions on some business activities were eased in parts of the US, certain sectors of the economy (e.g., travel, entertainment, and restaurants) remained moribund during a period that is typically critical to their revenues and profits. And the nation's traditional back-to-school season was being characterized as "like no other" as schools and colleges sought to balance education and finances with ongoing health concerns.

The most interesting and relevant developments for investors in August included the following:

- The Bureau of Economic Analysis issued its second report on 2Q 2020 economic trends, revising its estimates of annualized GDP growth to -31.7% (versus an earlier estimate of -32.9%). Signs of improvement in some segments (e.g., manufacturing) of the US economy, however, led to somewhat higher consensus estimates of 3Q (median estimate: +20%) and 4Q growth (+6%). If realized, such outcomes would net to a -5.0% decline for all of 2020; continued above-average growth thereafter could return the US economy to 2019 levels by mid-2022.

- Initial unemployment claims ticked down modestly but continued to average about one million per week. The August unemployment rate (to be reported on Friday, September 4) is predicted to have improved modestly, declining from 10.2% to 9.8%. Continued high unemployment, combined with the Congressional inaction on extending previously boosted unemployment compensation, remains a source of economic concern.

- In late-August, Fed Chairman Powell stated that the central bank would be more flexible in its policies on targeting a +2.0% annual rate of inflation in a quest to foster strong job market growth. Although the announcement was broadly interpreted by capital markets as a signal that US interest rates may remain "lower for longer", it also sparked some concerns that future inflation might exceed recent forecasts. The result: a modest rise in long-term bond yields (the benchmark 10-year Treasury Bond yield rose +0.17% to a still-low 0.71%).

- The likelihood of low US interest rates contributed to further weakness of the USD relative to other major global currencies. The greenback has now declined nearly -11% versus a basket of world currencies since reaching a COVID-19 pandemic-related high in late March; it has fallen to levels last seen in mid-2018. A weaker USD is favorable for US exports and for investment portfolio assets denominated in other currencies.

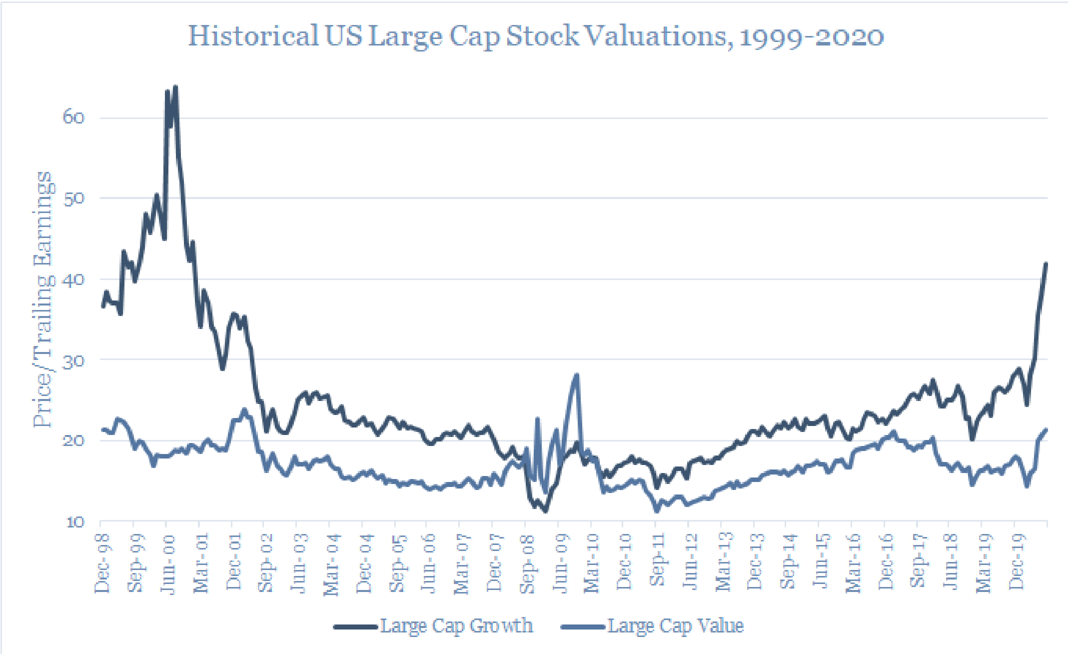
- Modestly higher US interest rates trimmed YTD gains in the bond markets. Taxable bonds returned -0.8% in August (Bloomberg Barclays Aggregate Bond Index) and tax-exempt bonds lost -0.2%. Although future returns on fixed income portfolio assets will likely be constrained by near-record low market yields, their positive YTD results (+6.9% and +3.1%, respectively) have helped to bolster investors' finances.

- Global equities (MSCI ACWI) returned +6.1% in August bringing their cumulative year-to-date performance to +4.8%. US equity markets (and US growth stocks in particular) led the way again last month. Their +7.2% return (Russell 3000 Index) was the best since August 2000; US stocks' +38% five-month total return since March 31 has modestly outpaced the very strong +37% post-Great Recession recovery from March-July 2009. Elsewhere, major non-US equity market segments returned +2.2% to +7.1% in August. Chinese stocks added +5.7% to their strong (now +19.8%) YTD rise.

- Year-over-year earnings per share for the benchmark S&P 500 Index fell by nearly one-third during the 2Q, one of the worst quarters in index history. Earnings were hit hardest in those sectors most affected by the global pandemic, notably energy, airlines, banks, and travel; 75% of the earnings declines were (according to Empirical Research) attributable to these industries. Aggregate cash dividends to shareholders, however, were increased nearly +8%.

- Growth stocks generally and mega cap technology (mostly US domiciled) stocks in particular continued to drive the YTD performance of domestic and global equity indices. The technology-heavy NASDAQ Index returned +9.7% in August; a more narrowly defined index of large growth companies (the Russell Top 200 Growth Index) returned +11.9% in August and is now +34.1% YTD. Facebook, Amazon, Apple, Microsoft, and Google are collectively worth $7.5 trillion and currently comprise about 24% of the overall S&P 500 Index. Apple's market weight in the S&P 500 (7.2%) now dominates the index more than any single issuer in history; IBM, the previous index weight "champ" peaked at 6.4% in 1985. Growth stocks' tremendous YTD performance – and, consequently, their

**high valuations relative to current and near-term expected earnings – is drawing parallels to the tech-stock driven markets of the late 1990's.**




**Our current economic and market perspectives are little changed from those of a month ago. As yet, there has not been an "all clear signal" globally with respect to the spread of COVID-19 and the challenges the pandemic poses to economies, to companies, and to consumers. Capital markets have well-rewarded industries and companies that were well-placed to meet changed modes by which many companies operated (e.g., work-from-home practices) and how consumers shopped and what they purchased. But the twin risks of above-average equity valuations – the right-sizing of which will necessarily be the product of strong earnings growth and/or price declines – and near-record low interest rates augur for continued cautiousness on the part of investors.**

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