September 11, 2020

| 9/11/2020 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 27,665.64 | -467.67 | -1.66 | 2.27 | -3.06 | 2.81 |
| S&P 500 | 3,340.97 | -85.99 | -2.51 | 1.80 | 3.41 | 12.14 |
| NASDAQ | 10,853.55 | -459.59 | -4.06 | 0.87 | 20.96 | 34.26 |
| S&P MidCap 400 | 1,854.87 | -42.99 | -2.27 | 1.86 | -10.09 | -4.28 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.13 | Euro/Dollar | 1.18 | 0.28 |
| 5-Year | 0.24 | Dollar/Yen | 106.20 | -0.12 |
| 10-Year | 0.67 | GBP/Dollar | 1.28 | -3.22 |
| 30-Year | 1.42 | Dollar/Cad | 1.32 | 0.55 |

Source: Bloomberg/FactSet

### What Caught Our Eye This Week

A report released last Friday from the Pew Research Center shows that the coronavirus pandemic is driving millions of young Americans back into their parents' homes. In July, nearly 26.6 million people between ages 18 and 29 (52% of all young adults) were living with one or both parents. This marks the first time the majority of people in that age group have done so and surpasses the 48% level seen at the end of the Great Depression (researchers note that data is sparse for the '30s – levels may have been higher between the 1930 and 1940 Census counts). The increase of almost 13% from one year earlier has been driven by several factors – job losses, office and campus closures, lack of childcare, and high costs (healthcare, affordable housing, ballooning student loan balances). These developments could have an impact on the economy in terms of future household formation by depressing new construction and impacting wealth accumulation and inequality.

### Economy

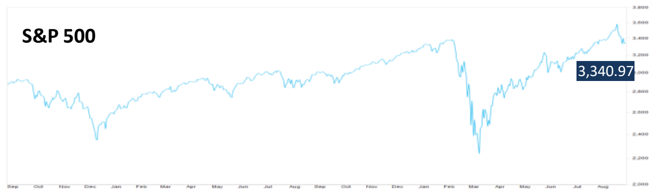
This week the economic data centered around inflation statistics with the release of the CPI and the PPI. On Thursday, the producer price index posted an increase of 0.3% in August and is now down 0.2% year-over-year. The "core" PPI increased by 0.4% and is now up 0.6% over the past 12 months. Energy prices dropped 0.1% and food prices by 0.4%. The consumer price index data was released on Friday and registered an increase of 0.4% in August, slightly exceeding expectations. Over the past 12 months this metric is up 1.3%. The headline number was led by a surge in used-vehicle prices (+5.4%) while airfare prices increased 1.2%. The "core" CPI also advanced by 0.4% and is now up 1.7% year-over-year. Focusing on three months, the "core" CPI is up a substantial 5.1% on a seasonally adjusted annual rate. Earlier in the week the JOLTS report (job openings and labor turnover survey) showed 1.7 million layoffs in July, which was the lowest count in over a year. Total job openings are now at 6.6 million, the "quits" rate rose to 2.1% and over the past 12 months, there is now a net employment loss of 8.2 million.

### Fixed Income/Credit Market

U.S. ETF fund flows through Thursday indicated that investors decreased risk as the stock market lost some momentum and the shape of the economic recovery from the pandemic remains uncertain. On the week aggregate bonds and government securities had the largest net inflows of approximately $2.7B and $1.5B, respectively. The volume increased the market caps 0.8% for each of the asset classes. Meanwhile, riskier asset classes such as bank loans and emerging markets (EM) saw respective net outflows of roughly $239MM and $26MM. The market cap for bank loans decreased 3.1% while EM lost just 0.1%. The flight to quality was more pronounced when looking at the fund flows by quality. The investment grade sector had net inflows of approximately $1.7B as high yield saw net outflows of roughly $762MM. The investment grade market cap increased 0.6% while high yield decreased 0.8%. Duration risk also seemed to be a factor as investors pulled $496MM or 1.1% of the market cap from long-term funds. Conversely, investors added approximately $1.1B to ultra-short funds which equates to a market cap increase of 1.3%.

### Equities

U.S. domestic equities finished the holiday shortened week on a mixed note on Friday. The negative momentum from last week's selloff carried over into Tuesday's opening trading session, leading all indices and sectors, save for materials, to post weekly losses. Thursday also saw stocks finish lower, though not as severely as earlier in the week, after a solid bounce back session on Wednesday. The week's volatility was again primarily driven by names in the big tech space. Stocks were also under pressure from Congressional disagreements over the newest economic relief package proposed this week. The proposal was set to inject $300 billion into the economy, but Democrats, calling the bill emaciated, blocked the Republican's so-called "skinny" bill. Economic stimulus has been a significant factor in the market's recovery, but with only 52 days until the presidential election, it is becoming less likely a new relief plan will be passed. This, combined with the large swings seen in tech names over the past couple of days, have led some investors to fear that the market may be in the beginning stages of an extended pullback. Others, however, claim that the market is simply experiencing a healthy correction, as the Nasdaq is still up about 21% on the year. For the week, the S&P 500 closed down -2.51%, the Nasdaq -4.06%, and the Dow -1.66%.




### Our View

The recent sharp selloff in equity markets is the third major trend reversal for markets this year. Market reversals, which alarmingly can be sparked by a seemingly innocuous event, can carry market indexes well beyond levels anticipated by investors when the reversal initially begins. This was certainly the case as the stock market recovered to new highs from the bear market bottom in March. The duration of the current market consolidation remains uncertain. But clearly, equities can continue to correct as investors consolidate gains in technology and other high-flying growth names. As we approached the end of summer, conditions for a market consolidation were in place. Market leadership was being provided by the FAAMNG stocks and technology in general, but the rally was extremely narrow. The performance of stocks in the S&P 500 on average was (and still is) over 10% below the index itself. Before the recent selloff, the powerful rally FAAMNG stocks were based on how entrenched their products and services have become in our lives, especially in a post-COVID-19 world. By historical standards, valuations for FAAMNG stocks have become excessive, but price-to-earnings multiples have been rationalized due to negative real interest rates. Optimism regarding the long-term fundamentals for the tech sector seems warranted. Over the last decade, revenue growth for the tech sector accelerated to a compound growth rate of 10%, driving annualized earnings up 13%. But stocks can often get ahead of the fundamentals, especially given a narrative built around a persistent low interest-rate environment and seemingly bulletproof business models. The equity market's wide divergences and valuation issues will get worked out, and there could be some pain involved in that process. However, we do not believe the equity market will test March lows because of the massive fiscal stimulus and central bank support. Although the pace of recovery for the labor market and the overall economy will slow, and perhaps become more erratic, we expect the economy will continue to recover. Earnings will grind higher, further underpinning an improving fundamental situation.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 09/15 Industrial Production SA M/M | (Aug) | 1.2% | 3.0% |
| 09/16 Retail Sales SA M/M | (Aug) | 1.3% | 1.2% |
| 09/17 Housing Starts SAAR | (Aug) | 1,445K | 1,496K |
| 09/17 Initial Claims SA | (09/12) | 884.0K | 884.0K |
| 09/18 Michigan Sentiment NSA (Preliminary) | (SEP) | 76.0 | 74.1 |

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