August 21, 2020

8/21/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,930.33	-0.69	0.00	2.33	-2.13	6.59
S&P 500	3,397.16	24.31	0.72	1.77	5.15	16.16
NASDAQ	11,311.80	292.50	2.65	0.84	26.07	41.04
S&P MidCap 400	1,910.25	-39.31	-2.02	1.82	-7.41	1.24

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.17	Euro/Dollar	1.18	-0.42
5-Year	0.26	Dollar/Yen	105.96	-0.47
10-Year	0.64	GBP/Dollar	1.31	-0.28
30-Year	1.34	Dollar/Cad	1.32	-0.38

Source: Bloomberg/FactSet

What Caught Our Eye This Week

According to data from S&P Dow Jones Indices, in 1997, 102 companies in the S&P 500 Index split the shares of their stock. In contrast, there were only five companies in 2018 and three companies in 2019 that split their shares. As investors have chosen to get their exposures to stocks through mutual funds and exchange traded funds rather than owning whole shares outright, the number of company stock splits have declined. In addition, stocks with higher prices tend to attract fewer short-term traders and accordingly have reduced volatility, a feature which is attractive to companies. This month Apple and Tesla announced stock splits of 4-for-1 and 5-for-1, respectively. One of the main reasons a company might split its stock is to expand its shareholder base. A stock split, in which a company increases its number of outstanding shares while preserving its market value, makes its stock price more affordable to individual investors. Companies may want to lower their stock price to entice young investors who use apps to invest in stocks. Both Apple's and Tesla's stock price has surged subsequent to announcing the splits. Since a stock split is simply an accounting function and adds no intrinsic value to the business, this may be a sign of investor enthusiasm. Investing experts wonder whether similarly high-priced stocks may soon split too.

Economy

This week the economic data centered around housing statistics with good news spread among three different reports. First, on Tuesday, housing starts posted their largest monthly gain, surging 22.6% in July to 1.496 million units at an annual rate. New building permits increased 18.8 % to 1.495 million, a gain we have not witnessed since 1990. Single-family starts are now up 7.4% year-over-year and multi-family starts have exploded, up 65% over the past 12 months. The best news is that housing starts are now only 4.5% below the February levels. In other news this week we were pleased to see the NAHB survey (National Association of Home Builders) rise to 78 in August from 72 in July. This is the highest figure on record for the series that dates back to 1985. The positive housing data continued on Friday with existing home sales figures registering an impressive 24.7% increase in July. Total sales came in at 5.86 million units at an annual rate, a level not seen since 2007. Finally on Thursday weekly jobless claims increased 135,000 to 1.106 million during the week ending August 15th. Overall, the number of people collecting unemployment benefits ticked down to 14.8 million for the week ended August 8th.

Fixed Income/Credit Market

Supply metrics the past two weeks have intimated that investor appetite for U.S. Treasuries might be waning, particularly for longer maturities which saw significant size increases in auction sales. On Wednesday, Treasury sold $25 billion 20-year bonds, up from $17 billion in July. The bid-to-cover ratio, a metric used to gauge bidder demand was just 2.26 times versus 2.53 times at the last refunding. The bonds were awarded at a yield of 1.185% despite pre-auction expectations of a 1.176% yield. Furthermore, last week's 30-year bond auction was also uninspiring. Treasury sold a record high $26 billion long bonds, up $7 billion from July's sale. The bid-to-cover ratio was 2.14 times vs an average of 2.28 times. The 30-year auction yielded 1.406% which was 2.8 basis points (bps) above when-issued (pre-auction) yields. While the noticeably weaker auction statistics indicated potential supply fatigue, this week's flight-to-quality trade demonstrates that investor demand for safe-haven assets has not completely dissipated, regardless of term to maturity.

Equities

Stocks finished higher on Friday to round out a mixed week of performance. However, despite the spotty results and no outstanding macro indicators, the Russell 1000 Growth Index significantly outperformed its value counterpart this week by 4.49%. The divergence between the two indices continues to be spearheaded by big tech. Correspondingly, big tech has also been the driving factor for the stock market's blistering recovery since its March slide. Thanks to tech giants like Google and Microsoft for example, and a handful of other prominent growth names, this week the S&P 500 set a new record high – a feat not seen since February. This week also witnessed Apple become the first U.S. company ever to reach a $2 trillion valuation. Although equities have been performing favorably, investors are still harboring concerns over the coronavirus, Congress' plans for additional fiscal stimulus, and the Fed. It seems apparent at this point, given the nature of the market's concerns, that a full economic reopening/recovery will not be realized until a vaccine is approved. For the week, the S&P 500 finished up 0.72% and is now up 5.15% YTD. The top and worst performing sectors were information technology and energy, finishing +3.48% and -6.11%, respectively.

Our View

Minutes from the most recent FOMC policy meeting, which was held in late July, showed officials are extremely concerned that the current health crisis will hinder economic growth, inflation and employment in the near term and cause substantial uncertainties over the medium term. Since the pandemic began, the Fed has effectively implemented a multitude of monetary policy tools and successfully stabilized financial conditions. However, there still remains a disconnect between the markets and the economy and the Fed is far from achieving its dual mandate of full employment and price stability. Fed officials continue to reiterate the need for additional fiscal support from Congress, but they also acknowledge the danger of the massive amount of public debt that has been accumulated over the years, which now stands at $26.6 trillion and has grown approximately $3 trillion since the end of March. Holding back additional fiscal support during recessionary times poses a major headwind to the burgeoning economic recovery unless a medical solution is developed. Thus far, Congress has passed four separate bills to combat the damage caused by the pandemic, but key relief programs have largely run their course and a fifth bill remains elusive at this point as Congress has departed for summer recess. Moreover, with reopening plans being paused or reversed in states containing roughly 80% of the U.S. population, there is no way a full economic recovery can be obtained until herd immunity to Covid-19 is achieved. Therefore, the race to create and mass produce a vaccine is the most imperative factor in restoring economic activity to pre-pandemic levels. The current time record for developing a vaccine is four years, but with thousands of researchers currently working on more than 600 projects to develop a Covid-19 vaccine, it seems probable that the current record will be smashed. According to top healthcare officials, a vaccine could be available as soon as the end of 2020 if major setbacks are avoided, which gives a sense of hope during very difficult and uncertain times.

COMING UP NEXT WEEK		Consensus	Prior
08/25 Consumer Confidence	(Aug)	93.6	92.6
08/25 New Home Sales SAAR	(Jul)	788.0K	776.0K
08/26 Durable Orders SA M/M (Preliminary)	(Jul)	6.5%	7.6%
08/28 Personal Income SA M/M	(Jul)	-0.20%	-1.1%
08/28 Michigan Sentiment NSA (Final)	(Aug)	72.9	72.8

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