



9/4/2020		Wk	Wk	YTD	12 Mos	
	Close	Net	%	Div	%	
STOCKS	Change	Change	Yield	Change	Change	
DJIA	28,133.31	-520.56	-1.82	2.23	-1.42	7.72
S&P 500	3,426.96	-81.05	-2.31	1.76	6.07	17.92
NASDAQ	11,313.14	-382.50	-3.27	0.75	26.09	43.67
S&P MidCap 400	1,897.86	-48.65	-2.50	1.83	-8.01	2.14

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.18	-0.84
5-Year	0.30	Dollar/Yen	106.33	0.97
10-Year	0.72	GBP/Dollar	1.32	-0.92
30-Year	1.47	Dollar/Cad	1.31	0.10

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Dow Jones Industrial Average (DJIA) was introduced in 1896 with 12 stocks (11 industrial companies and one railroad) and expanded to 30 stocks in 1928. The composition of the index has changed significantly over the last 92 years. Though the index is still comprised of 30 stocks today, the benchmark lost its final original constituent this week when Exxon Mobil (previously Standard Oil of New Jersey) was removed. S&P Dow Jones Indices, which manages the index, communicated that the changes were prompted by Apple's 4-to-1 stock split. As a price-weighted index, the performance of the DJIA is driven more by its higher-priced stocks (e.g. Apple at \$500) than the lower-priced stocks. After its recent stock split, Apple dropped from the most expensive stock in the Dow to about the 16th thereby reducing the index's technology sector weighting. To offset that, Salesforce was added but the DJIA technology weighting is now only 24% (down from 28%). Along with Exxon, Pfizer was replaced with Amgen and Raytheon Technologies was swapped for Honeywell. The DJIA has struggled to keep up with the S&P 500 Index, a more diversified and more widely used benchmark. Those limitations can be seen in the large gap between total assets linked to each index, \$31.5 billion for the DJIA versus more than \$11 trillion for the S&P 500.

Economy

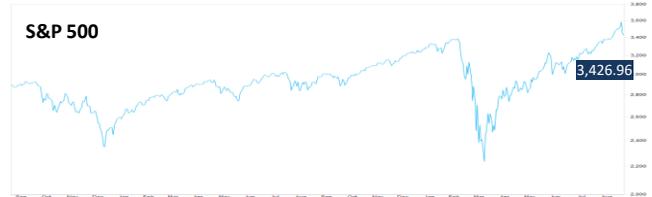
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 1,371,000 in August, and the unemployment rate declining from 10.2% to 8.4%. The broad U-6 measure of unemployment also declined, dropping from 16.5% to 14.2%. The labor force participation rate increased from 61.4% to 61.7%. Examining the different employment sectors, leisure and hospitality gained 174,000 jobs, retail added 249,000 jobs, and manufacturing secured 29,000 jobs. The payroll diffusion index, which measures the number of industries that increased employment last month rose from 59.9% in July to 69.0% in August. In other news this week, the ISM manufacturing survey increased from 54.2 in July to 56.0 in August. The new orders index increased from 61.5 to 67.6 and the production figures moved up from 62.1 to 63. Overall, 15/18 industries reported expansion. Finally, we were disappointed to see the ISM nonmanufacturing survey drop from 58.1 in July to 56.9 in August. The new orders index decreased from 67.7 to 56.8 and the business activity index fell to 62.4.

Fixed Income/Credit Market

In August, interest rates between the 10-year and 30-year tenors increased roughly 18 to 28 basis points (bps). The fixed income asset classes that we follow responded in kind from both a credit risk and duration risk perspective, albeit in an unusual manner. Traditionally, an impactful rise in interest rates across the curve would put increased pressure on corporate balance sheets, particularly those that are highly levered and have speculative-grade credit ratings (usually with floating rate obligations). However, during the pandemic, an increase in interest rates is a potential sign of recovery which would be a boon for businesses – even those on the lower rungs of the credit rating stack. The best performing sectors were those commonly thought to carry more risk; preferred equity, senior loans, and high yield bonds returned 1.9%, 1.31%, and 0.99%, respectively. The worst performers were long-term high-quality bonds, high-quality international bonds, and municipal bonds which returned -4.12%, -0.76%, and -0.59%, respectively.

Equities

Equities experienced significant selloffs on Thursday and Friday, leaving all major indices with weekly declines. The tech heavy Nasdaq Composite suffered acute losses, finishing the week down -3.27% – the worst of the three major indices – as an exit from overvalued names in the information technology space served as the impetus behind the slide. Thursday's performance was the market's worst since June 11, and with Friday's close snapped both the S&P 500 and Nasdaq's five-week winning streak. The pullback comes after the massive rally of large cap technology names in recent weeks, particularly Apple and Tesla, after huge moves on Monday following their stock splits. While no distinct catalyst was identified, general concerns about overbought conditions and high concentrations in growth and momentum names (chiefly big tech, semis, and cloud software) ultimately appear to have been the root cause. This, in combination with the relentless rise the market has seen since its March low, edged investors to pocket some of the profits they have accumulated. Despite the selloff, President Trump reaffirmed his belief in a "Super V" recovery at a campaign event Thursday night, and later touted the strong unemployment numbers released Friday morning as a point of optimism. For the week, however, the S&P 500 and Dow finished out the week down -2.31% and -1.82%, while the information technology sector closed down -4.15%.



Our View

A tremendous amount of fiscal stimulus has been instituted to help battle the hardships caused by the pandemic. Moreover, the Congressional Budget Office projects the 2020 Federal deficit will total \$3.3 trillion or approximately 16% of GDP, which would be the largest figure since 1945. But, even with the previously mentioned government support, many are still suffering and in severe economic danger with minimal financial resources. More specifically, approximately 19 to 23 million renters in the U.S. are at risk of eviction by the end of September, according to the Aspen Institute, which vastly exceeds the recent annual eviction trend of roughly 1 million people. Much has been done thus far to keep people from facing eviction. For example, the CARES Act, which was passed in March, placed a ban on evictions in apartments backed by federal financing that lasted until July 25th and protected approximately 28% of tenants. Also, landlords have worked with tenants on modified rental payment plans to avoid eviction and keep some form of income in place. Just recently, the Centers for Disease Control and Prevention (CDC) announced a plan to temporarily halt evictions of renters earning less than \$99,000 a year (\$198,000 for couples) to help mitigate the spread of Covid-19. However, those seeking eviction relief will have to provide evidence that they are unable to afford their full rental payment and instead pay what they are able to. The CDC's initiative will most likely face legal challenges from landlords, but keeping people in their homes should be a priority during these trying times. It is also true that landlords need adequate income to cover property expenses, capital improvements and debt service otherwise they are at risk of foreclosure, which could negatively impact the nation's affordable housing stock. With the underemployment rate still residing at an elevated level of 14.2%, the eviction situation will be an issue for the foreseeable future. Congress desperately needs to pass an additional stimulus bill in the near term and some form of need-based rental assistance should undoubtedly be included.

COMING UP NEXT WEEK		Consensus	Prior
09/09 JOLTS Job Openings	(Jul)	5,950K	5,889K
09/10 PPI ex-Food & Energy SA M/M	(Aug)	0.20%	0.50%
09/10 PPI SA M/M	(Aug)	0.20%	0.60%
09/11 CPI SA M/M	(Aug)	0.30%	0.60%

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