WEEK IN REVIEW

Aug 28, 2020

The Bottom Line

- The S&P 500 made it five-for-five this week with positive closes and successive record highs each day of the week. August 2020, up +7.24% with just Monday left, is shaping up to be the best August for the index since 1984.
- U.S. bonds were the only major asset class in negative territory for the week. The benchmark U.S. 10-year Treasury note yield jumped +9 basis points to 0.72% for the week.
- The U.S. Federal Reserve announced a major policy shift, saying that it is willing to allow inflation to run hotter than the long-standing 2% target in order to support the labor market and broader economy.

Markets march to more record highs

Stocks are running on high. The Dow Jones Industrial Average joined the S&P 500 and Nasdaq in positive territory for 2020 – its first time positive for the year since late February. The S&P 500 was positive each day of the week, setting successive new all-time highs along the way. Ultimately it advanced +3.3% for the week, putting it on pace for its best August performance since 1984. Despite an ugly Consumer Confidence report from the Conference Board on Tuesday, most economic reports continue to show continued economic recovery that is beating economists' forecasts. The real big news for the week was the major Federal Reserve policy shift announced by Fed chairman Jerome Powell on Thursday. The new policy will use average inflation, rather than stick to its 2.0% target, meaning it would allow inflation to go above 2.0% and stay there for an extended period to offset the years it has been below the 2.0% target. Essentially the Fed is signaling that it will not raise rates to mitigate inflation, even if inflation starts to rise, to help employment recover more fully. Fundamentally, the Fed is conceding that rates will remain low for years and the that U.S. dollar should slide further over time.

Digits & Did You Knows

GETTING IT ALL BACK – In the last 75 years there have been 6 bear markets in which the S&P 500 fell at least -30%, the latest being the -34% drop ending 3/23/20. In every case, the stock market eventually recovered. The average time the S&P 500 took to recover to a new record after the first 5 bears markets was 43 months, compared to just 5 months after the 3/23/20 bear market low (source: BTN Research).

BAD COMPANY – As of the summer 2019, there were just 4 “advanced economies” in the world with a government “debt-to-GDP” ratio higher than the U.S. – Japan, Greece, Italy and Portugal (source: International Monetary Fund, BTN Research).

Market Snapshot	Index Level	1-week Price Return	2020 Price Return
EQUITIES			
S&P 500	3,508.01	+3.26%	+8.58%
Nasdaq Composite	11,695.63	+3.39%	+30.35%
Russell 2000	1,578.34	+1.67%	-5.40%
Nikkei-225 (Japan)	22,882.65	-0.16%	-3.27%
STOXX Europe 600	368.80	+1.02%	-11.31%
RATES			
2-Year UST Note	0.13	-1 bps	-144 bps
10-Year UST Note	0.72	9 bps	-119 bps

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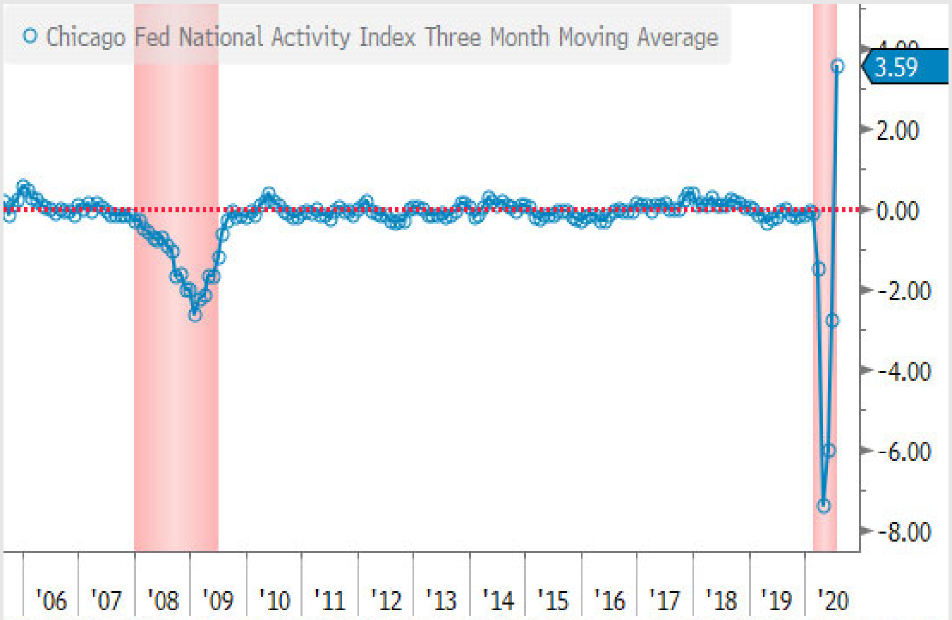
Chart of the Week

Unemployment data remains historically high and the labor market remains a big headwind to the economic recovery. But beyond labor, the vast majority of economic indicators have been exceeding consensus expectations. Housing, factory activity, and retail sales have been particularly strong and now are exceeding pre-pandemic levels. The Chicago Fed National Activity Index (CFNAI) is composed of 85 indicators, so it is a broad measure of economic health. The July CFNAI was released Monday, and on month-to-month basis, it did show a slowing pace of the rebound. However, the 3-month moving average is telling a great story. It is a smoother, less noisy version, of the CFNAI and for the first time since last August it flipped into positive territory and posted its highest level in its 50-year history of data.

CFNAI is indicating that the recession ended in July



Source: Bloomberg, Federal Reserve Bank of Chicago. Shaded areas are U.S. recessions.

Economic Rundown

- July **New Home Sales** surged +13.9%, its third double-digit increase in a row, resulting in the largest 3-month gain since 1980. **Pending Home Sales** climbed +5.9%, its third gain in a row, and above the consensus of +3.5%
- The **CoreLogic S&P/Case-Shiller National Home Price Index** edged up +0.2% in June, +4.3% from last June.
- The **MBA Mortgage Refinance Index** fell -10.2% last week, the largest drop in two months.
- The August **Conference Board Consumer Confidence Index** fell -6.9 to 84.8, lowest since May 2014, worse than expectations, and -49.4 from a year ago.
- July **Durable Goods Orders** continue to recover and exceeded expectations, rising +11.2%, led by vehicles and defense aircraft.
- **Corporate Profits** from dropped -11.1% in Q2, following a -12.0% fall Q1 resulting in the 1H-2020 falling by the most since the Global Financial Crisis.
- July **Personal Income and Spending** both rose, helped by government support, and were ahead of expectations.
- **Initial Jobless Claims** fell -98,000 to 1.006 million last week, slightly above expectations. **Continuing Claims** also fell, by -223,000 to 14.535 million.
- **Reuters/Univ. of Michigan Consumer Sentiment Index** was up +1.3 points in August, beating forecasts.

The Week Ahead

Monday	• Dallas Fed Manufacturing
Tuesday	• Markit & ISM Manufacturing PMIs • Construction Spending • Motor Vehicle Sales
Wednesday	• MBA Mortgage Applications • ADP Employment Report • Factory Orders & Durable Goods • Beige Book
Thursday	• Jobless Claims • Challenger Job-Cut Report • Trade Balanace • Markit & ISM Services + Composite PMIs
Friday	• NFP and Employment Report

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Asset Class Performance

WEEK IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best performer… or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK
High	Small Value 2.33	Emg Markets 1.01	Large Growth 2.07	Real Estate 1.43	Emg Markets 1.31	Large Growth 3.76
	Mid Value 1.76	Large Growth 0.76	Mid Growth 1.15	Small Value 0.83	Mid Value 1.01	Emg Markets 2.87
	Large Value 1.49	Small Growth 0.50	Intl Equity 0.58	Large Value 0.71	Small Growth 0.88	Mid Value 2.75
	Intl Equity 1.32	Mid Growth 0.49	Emg Markets 0.27	Mid Value 0.62	Small Value 0.77	Large Value 2.64
	Emg Markets 1.11	Real Estate 0.24	60/40 Allocation 0.22	Small Growth -0.10	Intl Equity 0.71	Small Value 2.49
	Real Estate 0.79	Intl Bonds 0.17	High Yield Bond -0.01	Large Growth -0.12	Large Value 0.69	Real Estate 2.14
	60/40 Allocation 0.70	60/40 Allocation 0.11	U.S. Bonds -0.02	High Yield Bond -0.15	Real Estate 0.62	Mid Growth 1.83
	Large Growth 0.47	High Yield Bond 0.11	Intl Bonds -0.16	60/40 Allocation -0.22	Intl Bonds 0.61	Intl Equity 1.65
	High Yield Bond 0.46	Intl Equity 0.06	Large Value -0.20	Mid Growth -0.34	Mid Growth 0.59	60/40 Allocation 1.35
	U.S. Bonds -0.04	Large Value -0.07	Small Growth -0.28	U.S. Bonds -0.35	60/40 Allocation 0.54	Small Growth 0.90
	Mid Growth -0.07	Mid Value -0.16	Mid Value -0.49	Intl Bonds -0.40	Large Growth 0.53	High Yield Bond 0.48
	Small Growth -0.10	U.S. Bonds -0.21	Real Estate -0.94	Emg Markets -0.84	U.S. Bonds 0.14	Intl Bonds 0.06
Low	Intl Bonds -0.17	Small Value -0.28	Small Value -1.14	Intl Equity -1.02	High Yield Bond 0.08	U.S. Bonds -0.48

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as “Allocation” is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

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