MONTH IN REVIEW

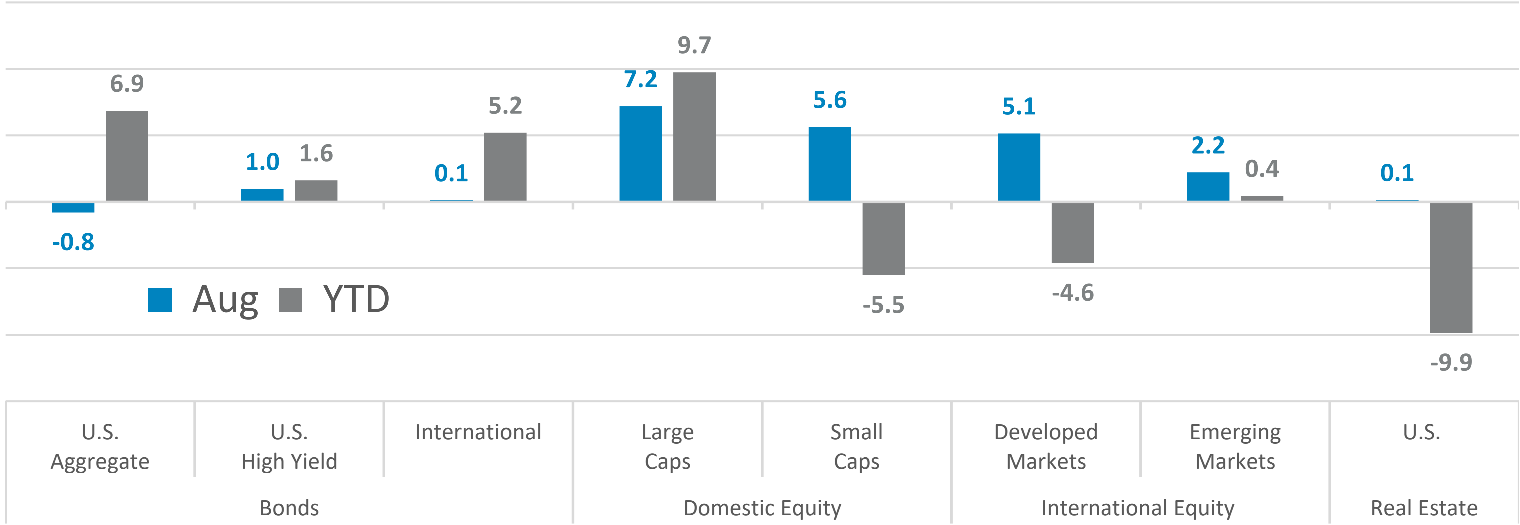
August 2020

Quick Takes

- **Another month, another batch of all-time highs.** U.S. stocks, as measured by the S&P 500, made all-time highs in 7 of the last 10 trading sessions of August and posted its best month, +7.1% (price return), since April and the best August since 1984.
- **Better than expected, cont'd.** In July we focused on the abundant better-than-expected economic data. August largely kept the momentum as the Citi U.S Economic Surprise Index averaged 236.5 in August, ahead of the 232.3 average in July. The previous single day high prior to June 2020 was only 97.5!
- **Yields up, bonds down.** Several sectors of the bond universe broke multi-month win streaks. The U.S. Aggregate Bond Index, Treasury bonds, Investment Grade bonds, and Municipal bonds all lost ground in August as interest rates ticked up.
- **Housing is red hot**. The August release for builder confidence tied the 1998 all-time high, housing starts and building permits surged, existing home sales had the largest monthly rise on record, new home sales has its best three month streak since 1980, and the median home price was $304,100 – the highest inflation adjusted level on record.

Asset Class Performance

U.S stocks posted their largest gains in decades in August. The benchmark S&P 500 Index has climbed for five straight months after starting 2020 with three straight monthly losses. The only negative asset class was U.S. bonds.



Source: Bloomberg, as of August 31, 2020. Asset-class performance is presented by using total returns for an index proxy that best represents the respective broad asset class. U.S. Bonds (Barclays U.S. Aggregate Bond TR), U.S. High Yield (Barclays U.S. HY 2% Issuer-Capped TR), International Bonds (Barclays Global Aggregate ex USD TR), Large Caps (S&P 500 TR), Small Caps (Russell 2000 TR), Developed Markets (MSCI EAFE NR USD), Emerging Markets (MSCI EM NR USD), Real Estate (FTSE NAREIT All Equity REITS TR).

PRIME CAPITAL
INVESTMENT ADVISORS

MONTH IN REVIEW

Stocks power ahead as strong economic data bolsters the recovery.

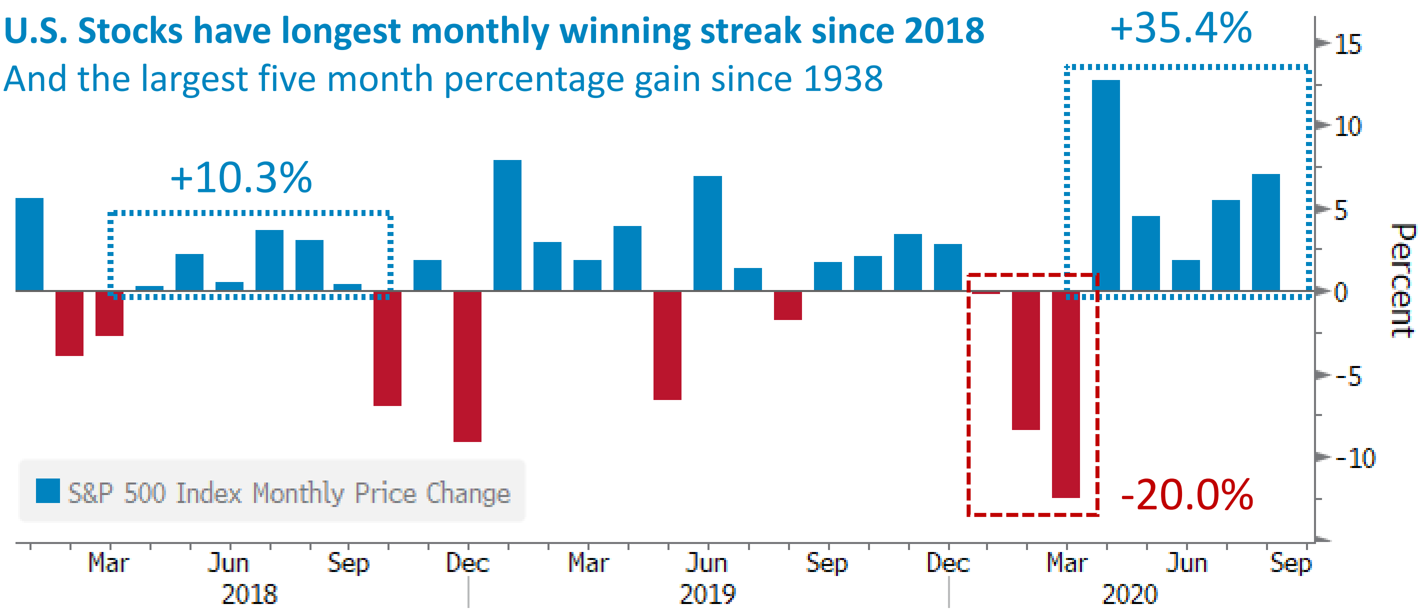
All three major U.S. stock indexes have climbed for five consecutive months after a brutal February and March that ended the longest bull market on record. The benchmark S&P 500 Index began the year with three consecutive monthly losses, for a combined -20% decline, as the coronavirus pandemic upended global markets. But since then U.S. stocks have been almost unstoppable. As shown in the chart below, the S&P 500 has advanced for five straight months, surging +35.4% over that period. That is its longest winning streak since the six months ended September 2018, but which produced a much lower +10.3% increase. In fact, you would have to go back to the 1938 to find a higher five-month price advance. The +7% gain in August marked the best month since April, the start of the streak, and it was the best August since 1986, when it climbed 7.1%.

The market advance has preceded a strong economic recovery which has occurred at levels better than expected, and at a pace faster than expected. This is across many aspects of the economy including strong durable goods orders, positive momentum in manufacturing and services, more positive inflation indicators than negative ones, and housing data that has crushed consensus forecasts. Indeed, housing has been particularly strong with homebuyer interest swelling, builder confidence at all-time highs, housing starts and building permits soaring, existing home sales had the largest monthly rise on record, new home sales had its best three month streak since 1980, and the median home price has crossed the $300,000 barrier for the first time and hit its highest inflation-adjusted level on record.

Second-quarter earnings also finished strong. That's seems strange to say when S&P 500 companies reported a -32% annual rate decline, and the largest drop since Q1-2009, but even so, nearly 85% of companies exceeded earnings expectations. One other area that has exceeded expectations was corporate deal making. The combined value of megadeals announced so far during the second half of 2020 reached $256 billion, according to data from Refinitiv. Nine deals worth $5 billion or more were announced in August alone—the most deals in the month since 1999.

One area of the recovery that has not shined is the labor market. Jobless Claims have averaged over 2 million a week since March – and the 4-week moving average is still above 1 million – plus the unemployment rate is still over 10%. That is likely feeding the drop in Consumer Confidence which just fell to its lowest level since May 2014. With the consumer accounting for 2/3 of GDP these will have to catch up to the rest of the economy for this recovery to keep its momentum.

Bottom Line: The stock market and economy continue their impressive rebound, but employment and consumer confidence will need to improve for the recovery to be sustained.



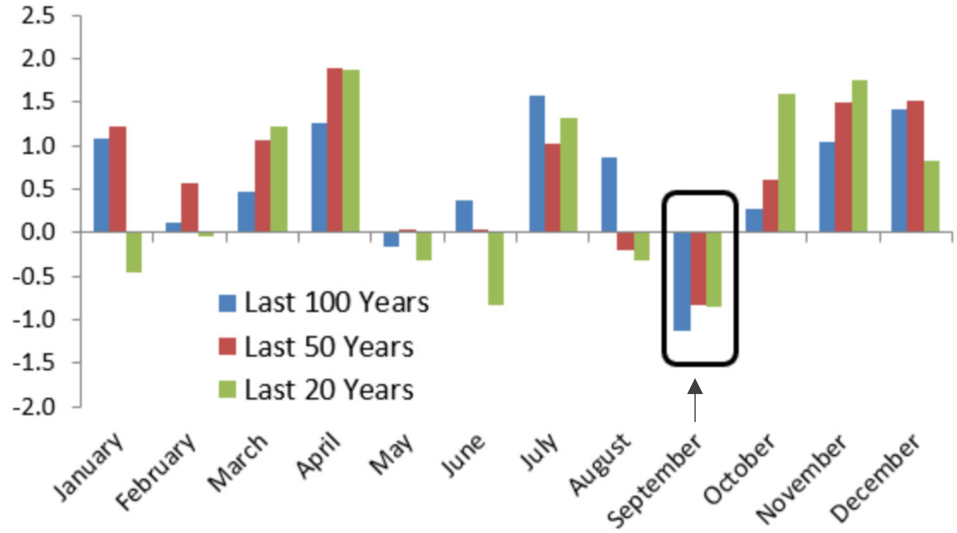
Source: Bloomberg. As of August 31, 2020.

©2020 Prime Capital Investment Advisors, LLC. The views and information contained herein are (1) for informational purposes only, (2) are not to be taken as a recommendation to buy or sell any investment, and (3) should not be construed or acted upon as individualized investment advice. The information contained herein was obtained from sources we believe to be reliable but is not guaranteed as to its accuracy or completeness. Investing involves risk. Investors should be prepared to bear loss, including total loss of principal. Diversification does not guarantee investment returns and does not eliminate the risk of loss. Past performance is no guarantee of comparable future results.

Will September seasonality and uncertainty threaten the recovery?

Can anything stop the surging stock market and the economic ascension? Some investors are worried that about a potential reversal of fortunes in September. Historically September has been the weakest month of the year for the market. As shown in the chart to the right, September has easily been the worst month whether looking at the last 20, 50, or 100 year periods. Over the last 100 years September has averaged a decline of -1.12% and was positive just 41% of the time according to data from Bespoke. Similarly, September starts a historically volatile period for the market. As shown below, the CBOE S&P 500 Volatility Index tends to rise at an increasing rate in September and peaks in October before trailing off through the remainder of the year. Now this is a 20-year seasonal average so any particular year can deviate. And in a year as crazy as 2020 has been, it's not just the calendar that may cause consternation. First and foremost, the year has been defined by the COVID pandemic so any material relapse on that front would almost certainly be a catalyst for volatility. U.S. lawmakers are also scheduled to return to work from the August recess and should resume talks to end the impasse on further COVID stimulus. Failure by Congress to deliver additional relief measures could also weigh on the market and spur volatility. Many are pointing to a potential spike in volatility from the November election, particularly if there is any uncertainty or dispute about the results. As mentioned on the previous page, employment and consumer confidence need to improve to keep the recovery on track. Corporate bankruptcies will be a headwind for them to progress though. 2020 is on pace to be the biggest bankruptcy year in history. According to Bloomberg, twenty companies with liabilities over $50 million filed last month. That's actually down from May, June and July, which averaged about 30 per month, but it was still the worst August on record. With many schools and universities now virtual, that may also thwart segments of the economy and employment that rely on student activity.

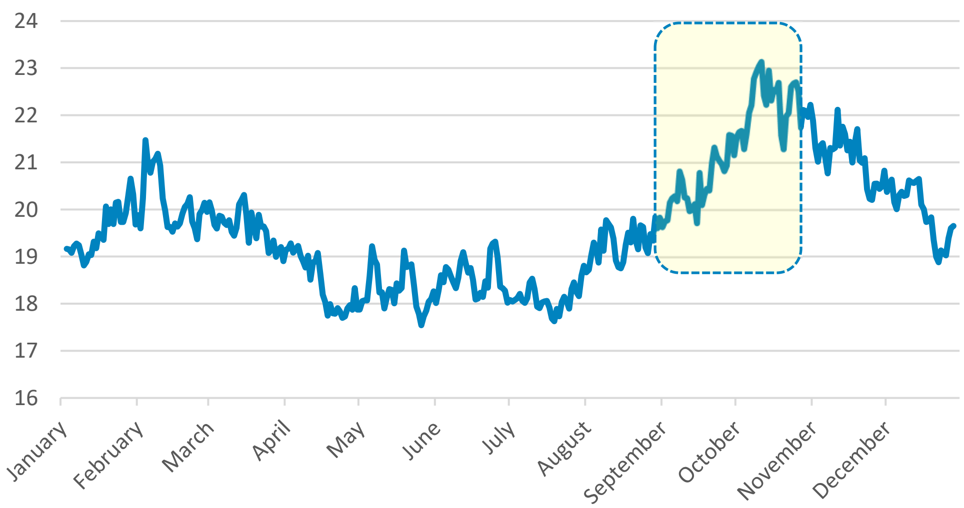
Average Monthly % Change for the Dow Jones Industrial Average



Source: Bespoke Investment Group.

CBOE S&P 500 Volatility Index (VIX)

Calendar Year Seasonality 2000-2019



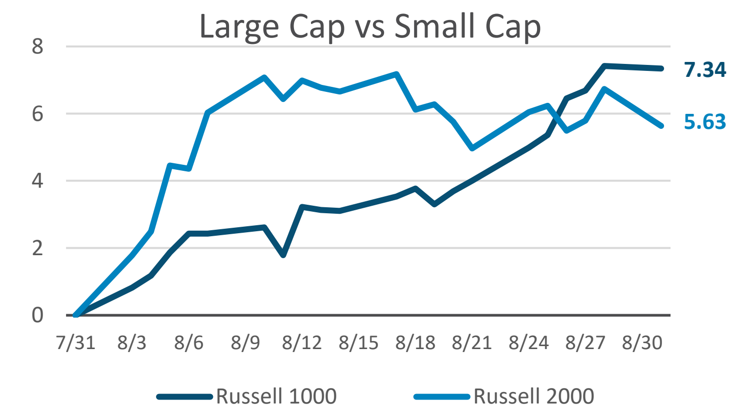
Source: Bloomberg.

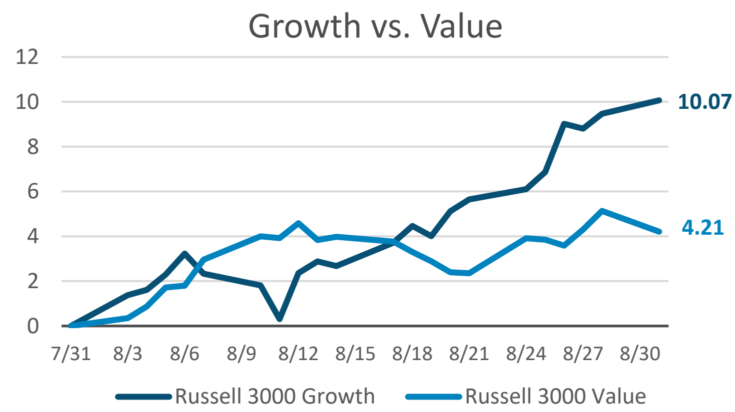
Still as we discussed in this space last month, the markets, economy, and earnings have been able to climb the wall of worry from the worst pandemic that we've experienced in our lifetimes. And the five month streak the markets just had are actually a harbinger for more good fortune. Ryan Detrick, Market Strategist at LPL, found that there have been 26 other five month win streaks for the S&P 500 since 1950. A year later the S&P 500 was higher in 25 of them with an average return of +12.8%.

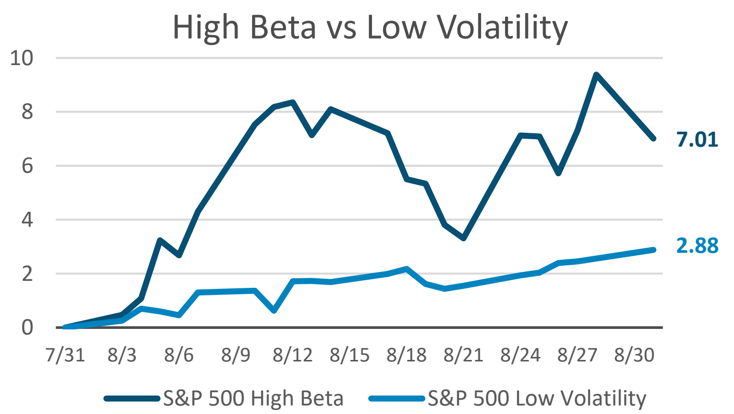
Bottom Line: September is historically the worst performing month of the year and usually comes with elevated volatility. There's no lack of concerns with COVID still a threat, a potential disputed Presidential election, and a soft labor market. However, the market has demonstrated remarkable resiliency and strength thus far, and historically that has precipitated yet more strength.

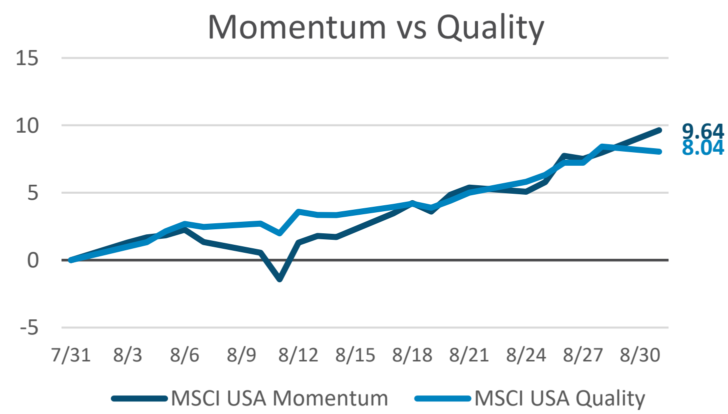
What Worked, What Didn't

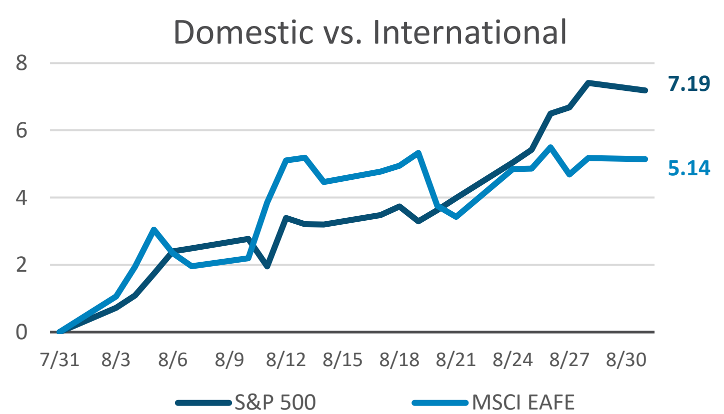
- **Small cap head fake.** Small caps had a big lead on large caps after the first week of August and then stalled the rest of the month as Large Caps powered ahead and eventually passed Small Caps in the last week of the month. To be sure, Small Caps had a decent month, gaining +5.6%, but relative to Large Caps, Small caps are -15% behind Large Caps in 2020.
- **Value head fake.** Value was also leading Growth at mid-month, albeit by a very narrower margin. But at the end of August Growth was ahead of Value (for the eleventh straight month) by nearly +6%, and was the top performing style.
- **International head fake**. International stocks also tried to beat recent trends, and was beating the S&P 500 as late as August 20, but then U.S. stocks outperformed for the final 7 trading days of August to beat the MSCI EAFE Index by +2% in August. International stocks have only beat U.S. stocks in June during 2020 and are more the -14% behind year to date.

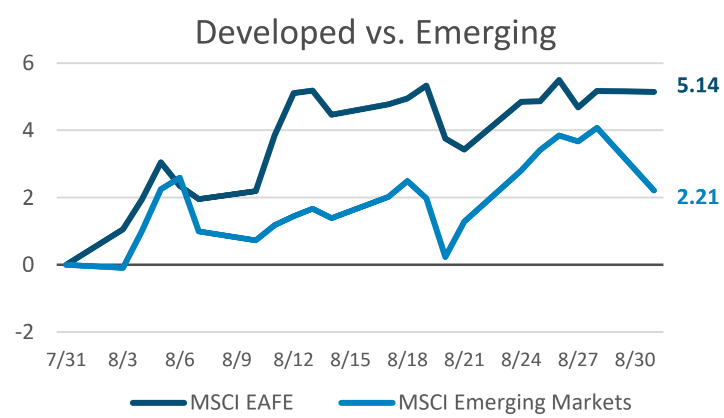








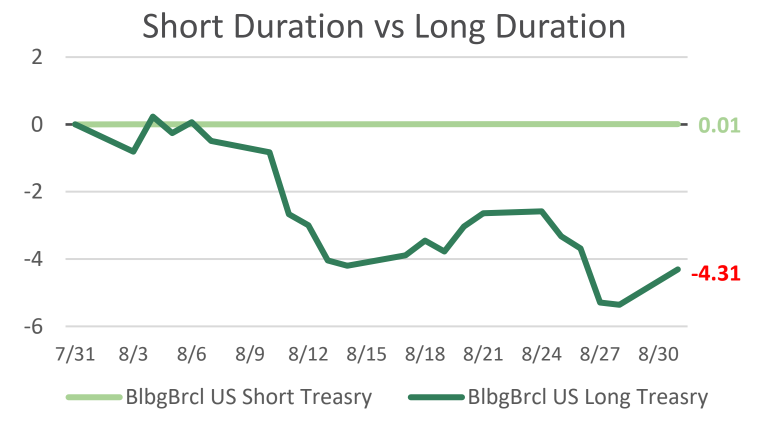


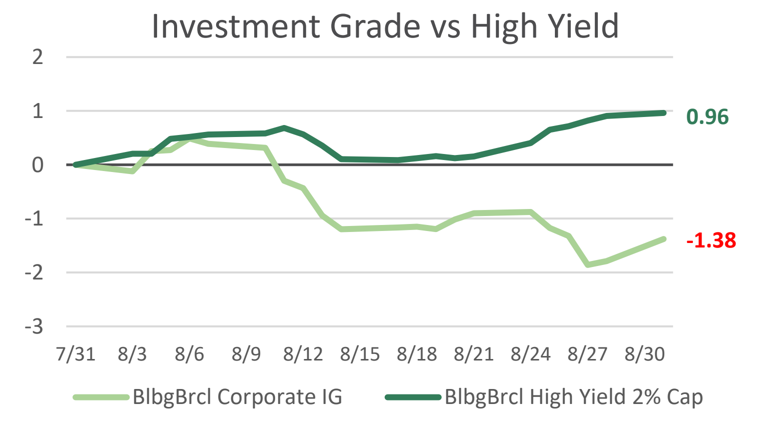


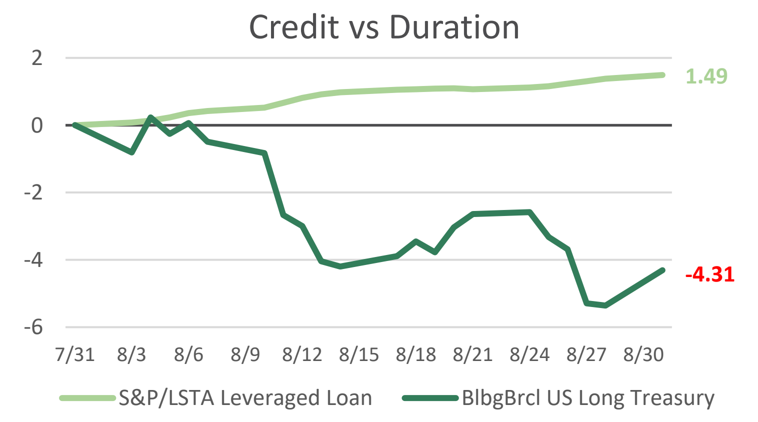
Source: Bloomberg.

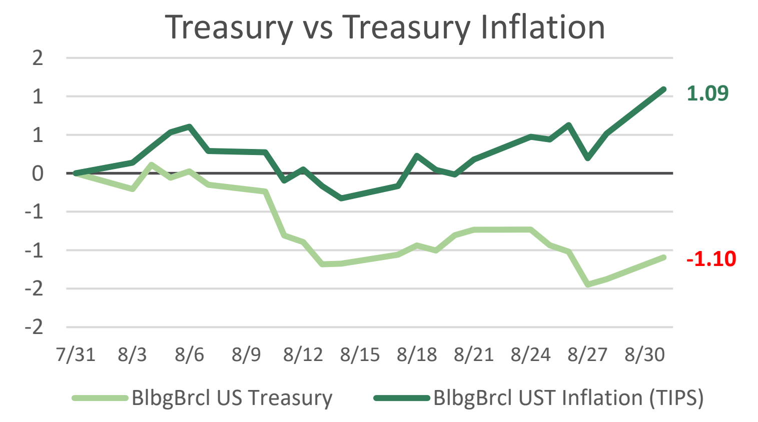
What Worked, What Didn't

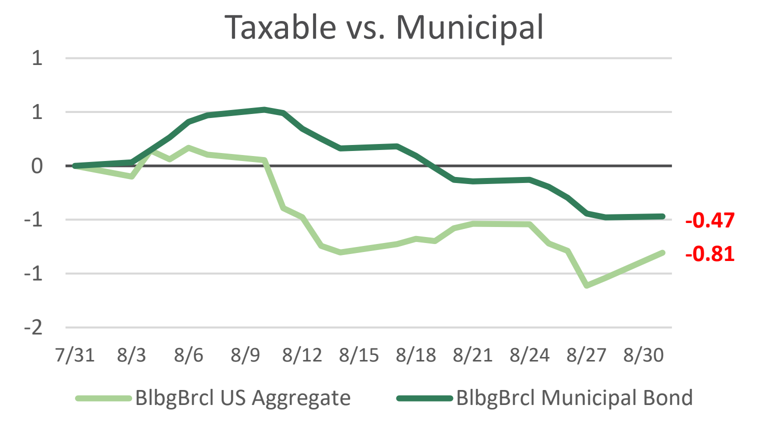
- **Can't win them all, part 1:** The **Bloomberg Barclays US Aggregate Index** declined for the first time in five months, with a -0.8% loss in August as U.S. Treasurys, more than a thirds of the index, fell -1.1%. But it was Long Treasurys that felt the most pain in August with a -4.3% drop… but they are still up +20.9% year to date. The Fed abandoned it's 2% inflation target and will seek to "achieve inflation that averages 2% over time" so they will let inflation run hot before acting again.
- **Can't win them all, part 2: Investment-Grade** bonds declined for the first time since March, falling -1.4% as Utilities (-2.9%) and Industrials (-1.6%) were particularly weak.
- **Can't win them all, part 3: Municipals** declined for the first time in four months, shedding -0.5% as the stimulus impasse elevated anxiety about when/if the aid needed by certain state and local governments would be received.

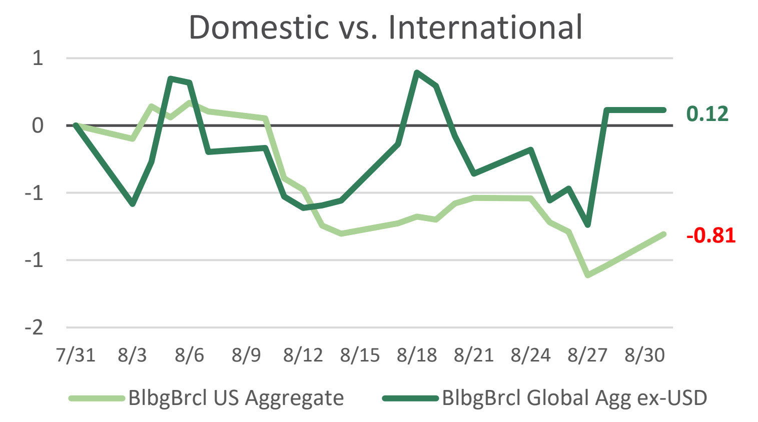












Source: Bloomberg.

August 2020

MONTH IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best, or worst, performer. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as less portfolio volatility, improved risk-adjusted returns, and more effective compounding.

	Aug-03	Aug-04	Aug-05	Aug-06	Aug-07	Aug-10	Aug-11	Aug-12	Aug-13	Aug-14	Aug-17	Aug-18	Aug-19	Aug-20	Aug-21	Aug-24	Aug-25	Aug-26	Aug-27	Aug-28	Aug-31	Aug
High	SCG 2.34	EM 1.33	SCV 2.22	LCG 0.93	SCV 2.38	SCV 2.00	IBD 0.39	IEQ 2.22	MCG 1.06	SCV 0.58	MCG 1.30	LCG 0.82	SCG 0.20	LCG 1.12	LCG 0.52	SCV 2.33	EM 1.01	LCG 2.07	RE 1.43	EM 1.31	IBD 0.55	LCG 10.17
	IEQ 1.95	RE 1.26	SCG 1.75	IBD 0.64	RE 1.36	MCV 1.36	IEQ 0.36	LCG 2.09	SCG 0.63	MCV 0.20	EM 1.27	IBD 0.62	USB -0.15	RE 0.91	EM 0.50	MCV 1.76	LCG 0.76	MCG 1.15	SCV 0.83	MCV 1.01	LCG 0.52	SCG 5.81
	MCG 1.32	SCV 0.93	EM 1.09	EM 0.31	MCV 1.30	LCV 0.91	SCV 0.00	EM 1.35	LCG 0.51	IBD 0.17	SCG 1.11	HYB 0.15	SCV -0.22	MCG 0.40	RE 0.15	LCV 1.49	SCG 0.50	IEQ 0.58	LCV 0.71	SCG 0.88	MCG 0.33	SCV 5.37
	LCG 1.29	IBD 0.80	MCV 0.82	HYB 0.22	LCV 1.07	IEQ 0.33	MCV -0.08	MCG 1.05	IBD -0.03	LCV 0.07	LCG 1.02	USB 0.14	HYB -0.28	HYB 0.33	USB 0.10	IEQ 1.32	MCG 0.49	60/40 0.27	MCV 0.62	SCV 0.77	USB 0.22	IEQ 4.72
	SCV 1.12	IEQ 0.55	LCV 0.75	60/40 0.21	SCG 0.84	EM 0.25	LCV -0.10	RE 0.97	60/40 -0.26	RE 0.01	RE 0.78	MCG 0.08	IBD -0.34	USB 0.18	LCV 0.07	EM 1.11	RE 0.24	EM 0.27	SCG -0.10	IEQ 0.71	HYB -0.14	LCV 4.08
	EM 0.69	MCV 0.47	LCG 0.58	LCV 0.16	USB -0.12	RE 0.24	EM -0.27	60/40 0.81	HYB -0.27	USB -0.09	IEQ 0.76	60/40 0.03	60/40 -0.44	60/40 0.05	HYB -0.01	RE 0.79	IBD 0.17	HYB -0.01	LCG -0.12	LCV 0.69	60/40 -0.34	MCV 3.90
	60/40 0.68	LCV 0.46	MCG 0.36	USB 0.14	60/40 -0.17	60/40 0.13	USB -0.28	SCG 0.78	EM -0.29	60/40 -0.18	HYB 0.59	IEQ -0.06	IEQ -0.44	SCG -0.11	60/40 -0.02	60/40 0.65	60/40 0.13	USB -0.02	HYB -0.15	RE 0.62	SCG -0.50	EM 2.89
	MCV 0.61	60/40 0.46	IEQ 0.33	IEQ 0.11	HYB -0.25	SCG 0.08	60/40 -0.33	LCV 0.64	USB -0.37	HYB -0.18	60/40 0.47	EM -0.11	LCV -0.46	IBD -0.17	MCV -0.16	LCG 0.47	HYB 0.11	IBD -0.16	60/40 -0.25	IBD 0.61	IEQ -0.76	60/40 2.79
	LCV 0.32	SCG 0.43	60/40 0.32	SCG 0.04	IEQ -0.41	HYB 0.05	HYB -0.90	MCV 0.38	IEQ -0.44	EM -0.18	IBD 0.19	SCG -0.23	LCG -0.47	EM -0.32	IBD -0.17	HYB 0.46	IEQ 0.06	LCV -0.20	MCG -0.34	MCG 0.59	LCV -0.84	MCG 2.73
	USB 0.04	LCG 0.31	HYB 0.18	RE 0.01	IBD -0.58	USB -0.09	MCG -0.93	IBD 0.03	LCV -0.63	LCG -0.19	USB 0.14	LCV -0.35	MCV -0.48	IEQ -0.32	MCG -0.25	USB -0.04	LCV -0.07	SCG -0.28	USB -0.35	60/40 0.53	RE -0.96	IBD 1.35
	HYB 0.02	MCG 0.21	USB -0.19	MCV -0.04	LCG -0.97	IBD -0.45	SCG -1.19	HYB 0.02	MCV -0.63	MCG -0.52	MCV -0.17	RE -0.47	MCG -0.71	LCV -0.45	IEQ -0.51	MCG -0.07	MCV -0.16	MCV -0.49	IBD -0.40	LCG 0.53	MCV -1.15	RE 0.23
	IBD -0.11	USB 0.19	IBD -0.26	SCV -0.11	MCG -1.09	LCG -0.51	RE -1.45	SCV -0.03	SCV -0.93	IEQ -0.61	SCV -0.19	MCV -0.66	EM -1.23	MCV -0.62	SCG -0.65	SCG -0.10	USB -0.21	RE -0.94	EM -0.84	USB 0.14	SCV -1.63	HYB -0.02
Low	RE -1.30	HYB -0.04	RE -0.38	MCG -0.69	EM -2.05	MCG -0.96	LCG -1.48	USB -0.20	RE -1.14	SCG -0.68	LCV -0.20	SCV -1.69	RE -1.79	SCV -0.73	SCV -0.80	IBD -0.17	SCV -0.28	SCV -1.14	IEQ -1.02	HYB 0.08	EM -2.22	USB -0.82

Legend

- 60/40 Allocation (60/40)
- Large Growth (LCG)
- Large Value (LCV)
- Mid Growth (MCG)
- Mid Value (MCV)
- Small Growth (SCG)
- Small Value (SCV)
- Intl Equity (IEQ)
- Emg Markets (EM)
- U.S. Bonds (USB)
- High Yield Bond (HYB)
- Intl Bonds (IBD)
- Real Estate (RE)

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 June 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.

Advisory services offered through Prime Capital Investment Advisors, LLC. ("PCIA"), a Registered Investment Adviser. PCIA doing business as Prime Capital Wealth Management ("PCWM") and Qualified Plan Advisors ("QPA").

© 2020 Prime Capital Investment Advisors, 6201 College Blvd., 7th Floor, Overland Park, KS 66211.