

## **Weekly Market Performance – August 14, 2020: Markets Moving Forward**

*Posted by [lplresearch](#)*

### **Market Blog**

Index Performance

S&P 500 Index: .6%

Dow Jones Industrial Average: 1.8%

Nasdaq Composite: .1%

### **Equities**

Markets were broadly higher for the week, with the Nasdaq the laggard as the rotation to cyclical value sectors remained the primary theme. Most sectors were positive, with industrials leading, while real estate and utilities were this week's laggards. Small and mid-cap equities posted modestly higher returns while value remained the leader.

S&P 500 Index earnings for the second quarter are tracking to an over 33% year-over-year decline, which is a very solid 11 percentage points above estimates when earnings season began. The earnings beat rate (over 80%) and average positive surprise (over 20%) are both well above historical averages. Forward twelve months' estimates have risen 1.4% since July 1. This may be an indication that second half estimates are too low.

Last week, President Trump issued executive action to provide an additional \$400 a week in unemployment benefits, with the states picking up the tab for \$100 of the \$400. In addition, President Trump proposed a payroll tax holiday for individuals making less than \$100k.

Presently, there has been no progress this week on a fifth coronavirus relief bill following last week's breakdown in talks. The stalemate likely will extend into September. There continue to be big divisions over the size and scope of the package. The market continues to expect a package worth around \$1.5 trillion to help offset the fiscal cliff. Additional funding for strained state and local governments may now be the biggest stumbling block facing a deal.

## **International Stocks**

International stocks finished higher this week. The developed international market index, as denoted by MSCI EAFE, returned over 3% this week, while the MSCI EM also showed a positive return.

In reviewing the peak-to-trough declines in gross domestic product (GDP) among the major global economies, we found that contractions have been steepest in Germany, Spain, and Italy. These nations are among the countries that were harder hit by the pandemic. China, Japan, and Australia generally have contained outbreaks more effectively and experienced less severe recessions. The United States is somewhere in between. Given the concentration of Asian countries in the emerging markets universe, we expect developing economies to experience smaller economic contractions in 2020 than advanced economies.

China's July industrial production fell just short of consensus, however manufacturing output has now recovered back to year-ago levels. Autos along with many electronic components saw double-digit gains. Moreover, China's July retail sales lagged expectations.

Tensions between US and China continue to be strained. In a positive note, Beijing's top diplomats signaled a willingness to talk in an attempt to minimize conflict with Washington. In addition, the Director of US National Economic Council, Lawrence Kudlow, was reported describing the state of the US—China trade deal as being "fine."

## **Fixed Income**

It was a tough week for bond investors, as all investment grade sectors were lower as yields picked up off their recent lows as a bevy of bond issues came to market. Bank loans, preferred stocks, and high yield munis were the lone bright spots. Treasuries were firmly lower on the week as the US Treasury's record debt auction was met with light demand as inflation expectations are on the rise following the surprise July Consumer Price Index (CPI) reading. Based on the inflation expectations implied by the yield differential between TIPS and nominal Treasuries, breakeven inflation has now climbed back to pre-pandemic levels"

## **Currencies and Commodities**

Despite the seventh consecutive weekly decline for the US dollar and rising inflation expectations, mean reversion weighed on precious metals this week. Spot gold recorded its single worst day since April 2013, while silver declined almost 15% during Tuesday's trading session.

Natural gas and West Texas Intermediate (WTI) finished higher this week, as data from the Energy Information Administration reported that domestic crude supplies dropped for a third week in a row. More support for oil demand may be forthcoming based on reports of increased travel, including the number of people going through Transportation Security Administration (TSA) checkpoints.

### **Economic Data Recap**

Filings for initial jobless claims came in below expectations at over 950,000 for the week ending August 8, the first reading below 1 million since March, and nicely below the prior week's reading of over 1.1 million. The claims number also beat Bloomberg's consensus estimate of 1.1 million. Continuing claims also delivered a positive surprise at 15.5 million for the week ending August 1 (they are reported with a one-week lag). This was below consensus estimates at 15.8 million (source: US Bureau of Labor Statistics). The unemployment landscape is improving, however claims remain above pre-pandemic record highs. The report still supports the need for additional fiscal stimulus in order to keep the economic recovery on track.

July retail sales grew slower than expected, rising 1.2% month over month versus consensus expectations of over 2%, according to Bloomberg. Despite the headline miss, better internals suggest a modest improvement of the data, with 8 of the 13 major retail sales categories higher, led by a jump in electronics and appliance stores. Given the slowdown in July retail sales, investors will be focused on August's sales to gauge the impact of reduced unemployment benefits on consumer behavior.

### **Looking Ahead**

Next week, 19 S&P 500 companies are scheduled to report earnings, as we head toward the conclusion of second quarter earnings season.

- Economic data on Monday begins with August's National Association of Home Builders (NAHB) Housing Market index.
- Tuesday is all about July building permits and housing starts from the US Census Bureau.
- Thursday provides investors another anticipated weekly unemployment initial claims report.
- We wrap up the week Friday with August's Purchasing Manager's Index (PMI) Composite along with July's existing home sales.

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