clearstead
MARKET MINUTE

2020 VOLUME : JULY REVIEW

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Aneet Desphande, Chief Investment Strategist, Managing Director.

OVERVIEW

The month of July saw continued momentum in capital markets despite a resurgence in the number of COVID-19 cases, particularly in states that represent a large share of the U.S. economy (i.e. Florida, California, and Texas). On the positive, a number of late stage clinical trials (notably from Moderna and Pfizer in the U.S.) for a vaccination have commenced with preliminary results expected in the fall. Economic activity increased as states reopened; new home sales reached levels not seen since 2007 amidst record low mortgage rates, retail sales continued to rebound – though consumer confidence remains depressed, and small business optimism recovered modestly. Markets responded in kind with domestic and developed international equity markets posting low single digit positive returns, while emerging market returns were in the high single digits. In fixed income, returns were also positive, with riskier sectors such as high yield and emerging markets performing better on balance.

DOMESTIC EQUITY

As of July 31, 2020

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	2.5%	2.5%	-6.1%	0.8%
S&P 500	5.6%	5.6%	2.4%	11.9%
Russell 2000	2.8%	2.8%	-10.6%	-4.6%
Russell 1000 Growth	7.7%	7.7%	18.3%	29.8%
Russell 1000 Value	4.0%	4.0%	-13.0%	-6.0%

U.S. equities continued their march higher in July as optimism surrounding a potential coronavirus vaccine boosted investor sentiment despite various increases in positive cases. Remarkably, following July's positive results, many indexes are now showing positive total returns on a year-to-date basis. During the month, large cap stocks (Russell 1000 Index +5.86%)[1] outperformed small cap stocks (Russell 2000 Index +2.77%)[1].

July saw the market value of Apple, Amazon, Alphabet, and Microsoft, which collectively represent 33%[1] of the Russell 1000 Large Cap Growth index, soar to near $6tn – exceeding the market capitalization of the 3rd largest economy in the world, Japan[2]. These tech giants helped to propel large cap growth stocks over large cap value stocks, marking the 10th consecutive month of outperformance for large cap growth.

INTERNATIONAL EQUITY

As of July 31, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	4.5%	4.5%	-7.0%	0.7%
MSCI EAFE	2.3%	2.3%	-9.3%	-1.7%
MSCI Emerging Markets	8.9%	8.9%	-1.7%	6.5%
MSCI EAFE Small Cap	3.4%	3.4%	-10.2%	0.4%

Non-US equity markets moved higher in July led by emerging markets (MSCI EM Index +8.94%)[1]. Markets were buoyed by the European Union's (EU) fiscal plan announced earlier in the month that pools resources to address EU countries most impacted by the Coronavirus, such as Spain and Italy. Additionally, the virus continues to be broadly contained in key European (Germany and France) and Asian (China and Japan) markets/economies. Similar to domestic markets, growth stocks outpaced value stocks during the month in international markets. The U.S. dollar continued to slide against both developed and emerging market currencies, particularly the Euro, in July. U.S.-China tensions continue to rise as each party closed a consulate in July (China's consulate in Houston, U.S. consulate in Chengdu)— with each alleging that espionage and illegal activity was taking place at these locations. Nonetheless, the phase I trade deal remains in place and China continues to make purchases of US goods, albeit at a slower pace than was envisioned by US negotiators.

FIXED INCOME

As of July 31, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	1.5%	1.5%	7.7%	10.1%
BarCap Global Aggregate	3.2%	3.2%	6.3%	7.8%
BarCap US High Yield	4.7%	4.7%	0.7%	4.1%
JPM Emerging Market Bond	3.7%	3.7%	1.8%	4.1%
BarCap Muni	1.7%	1.7%	3.8%	5.4%

Fixed income markets continue to benefit from a highly accommodative Federal Reserve as riskier segments within fixed income benefitted most during July – notably high yield (Bloomberg Barclays High Yield Index +4.69%)[1] and emerging markets debt (J.P. Morgan Emerging Markets Bond Index +3.70%)[1]. The yield curve ended the month modestly flatter, with the 30-year U.S. Treasury yield down .22%[1] while the 2-year treasury yield was down .04%[1]. Corporate credit spreads also continued to decline during the month, bolstering returns for the investment grade and high yield sectors. The decline in credit spreads has led to a favorable credit environment allowing for record-breaking issuances by companies in the high yield space. However, as we recognized during last month's Market Minute, investor caution is warranted and increasingly important in certain fixed income sectors as the record pace of delinquencies and bankruptcies picks up as the crisis wears on. Thoroughly vetted research ideas here are critical.

CLOSING

The month of July benefitted from a significant recovery across a variety of consumer metrics as the reopening process continued apace. With this 'pent up demand' in the rear-view mirror, we expect that the pace of the recovery could be susceptible to slowing - and may be accompanied by bouts of volatility. Markets, and most importantly those in need, await passage of a new stimulus package to help mitigate the loss of unemployment benefits, among other hardships. Lastly, the presidential election is within 100 days and will likely take on greater importance for markets as the summer progresses. Opportunities are likely to unfold in the coming months given this backdrop.

Sources:
1 - Bloomberg, as of 31-July
2 - Bloomberg, as of 20-July