

August 24, 2020

OBSERVATIONS

- Covid-19: Regulatory review for Pfizer/BioNTech joint vaccine candidate could come as early as October as both companies cite promising response data from ongoing studies.
- Single family home builder confidence surges to 78, equaling the all-time high for home builder sentiment that was set in Winter of 1998. Inventories for existing home sales continues to be near historic lows.¹
- *However*, 16% of FHA mortgages are now delinquent, the highest level in the data since records began in 1979. FHA mortgages represent the easiest path towards home ownership for first-time buyers and low-income families. Delinquencies for conventional mortgages are 6.7% by contrast – illustrating the asymmetric impacts of the crisis on lower income segments.²
- *Meanwhile*, lumber prices continue to skyrocket – up nearly +70% since mid-April³ - amidst shortages (i.e. high demand with pandemic induced supply chain disruptions).
- U.S. investment grade bond issuance set a new annual record less than 8 months into the year. With low borrowing costs, corporations have raised \$1.346 trillion surpassing the annual record set in 2017.²
- After a week of attempts, the S&P 500 finally reached a new closing high on 18-Aug. During the week Apple became the first company to reach the \$2 trillion market capitalization mark.²
- College Reaction/Axios Poll – 22% of current college students are not enrolling in college this fall. 77% say their school should avoid fall sports, including football.⁴
- Weekly U.S. unemployment claims jumped back over 1 million for the week ending August 15th. Claims have now been over 1 million 21 of the past 22 weeks dating back to late March.²

EXPECTATIONS

- Minutes from the recent Federal Reserve 29-July meeting suggest the committee continues to view the ongoing pandemic as weighing heavily on ‘economic activity, employment, and inflation’ for both the near and medium term.
- Purchasing Manager’s Index (PMI) data showed Eurozone conditions leveling off and near 2-month lows, while conditions in the U.S. reached 18-month highs.⁵

ONE MORE THOUGHT:

With the U.S. election less than 75 days away, the role of the U.S. Electoral College will again enter into the spotlight. As you may recall from your high school Government or Civics class, the votes cast on November 3rd only indirectly elect the U.S. President and Vice President. In fact, what each state votes on in November is ultimately the composition of that state’s electoral college (electors). The U.S. constitution (Article II, Section I, Claus 2) gives each state legislature the right to determine how its state’s electors are chosen. Each state has the number of electors equal to its number of Senators (always 2) and the number of its members in the House of Representatives (determined by a decennial census). For most states, the Presidential candidate which receives the plurality (the most votes) of the popular statewide vote receives all the state’s electors—only Maine and Nebraska split their electors based upon the proportion of support each candidate received. The statewide vote in each state is certified by each state’s Secretary of State (or equivalent position), usually without controversy, and the electors—typically affiliated with the party of the winning candidate—are determined. State laws and U.S. Supreme Court

¹ Bloomberg LP - National Association of Homes Builders/Wells Fargo Housing Market Index

² Bloomberg LP

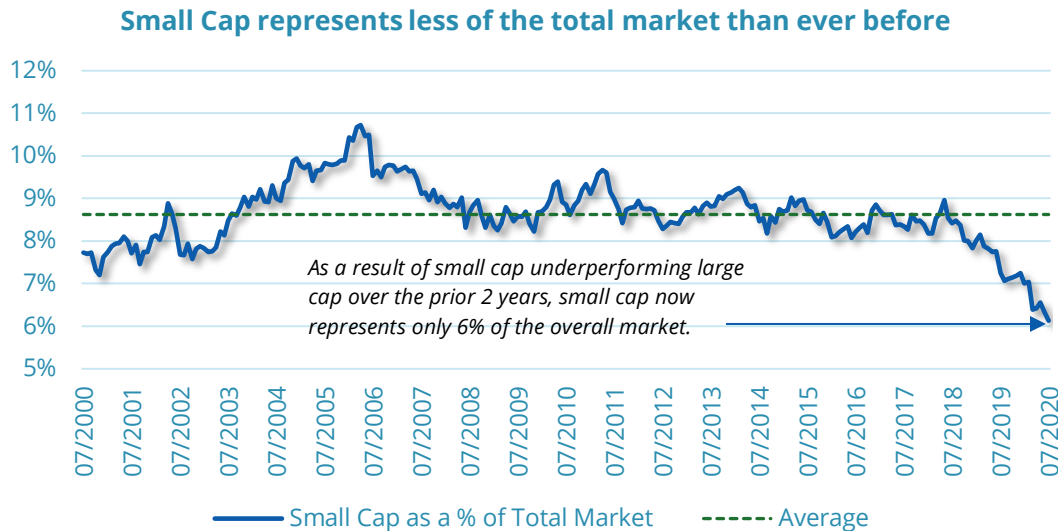
³ NAHB.org, <https://www.nahb.org/News-and-Economics/Housing-Economics/National-Statistics/Framing-Lumber-Prices>

⁴ College Reaction/Axios Poll, 798 respondents with polling conducted 16&17-Aug

⁵ IHS Markit Purchasing Manager’s Index – Senior Executive Survey, Bloomberg LP, as of 21-Aug

cases require electors to cast a vote consistent with the results of their statewide Presidential votes. The Presidential candidate that amasses at least 270 electoral college votes wins the Presidency. So long as no third-party candidate wins a state with a large number of electors this November, a clear winner will emerge with either President Trump or former Vice President Biden gaining more than enough electoral college votes to win the 2020 election. For the record, the last election when no one candidate won a clear majority of electoral college votes was in 1824. In a scenario such as this, the ultimate winner is then chosen by the House of Representatives with each state delegation given one vote— and in the case of 1824, John Quincy Adams was chosen as the sixth president.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, monthly data as of 31-July-20, Small Cap = Russell 2000 Index, Total Market = Russell 3000 Index

U.S. small cap stocks (Russell 2000 Index) now represents 6% of the overall U.S. equity market (Russell 3000) – much less than in past. Recently, large cap stocks have benefited from ‘big tech’ and have helped large cap outperform small cap stocks by a cumulative 29.8% over the past 2 years ended 31-July-20. For the 20-yr period ended 31-July-20, small cap stocks have outperformed large cap stocks by .49% per year (6.98% vs. 6.49% annually, respectively).⁶

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⁶ Clearstead, Bloomberg LP, Small Cap = Russell 2000 Index, Large Cap = Russell 1000, Total Market = Russell 3000, monthly returns as of 31-July-20.