

OBSERVATIONS

- COVID-19: India now the worst hit with nearly 100k daily confirmed cases (7-day average). Global death toll over 920k – U.S. approaching 200k deaths (193.7k).¹
- After spending July and August above \$40/bbl, oil suffered its worst day on 9-Sept since late April. On the day oil declined -7.6% to close at \$36.76/bbl.²
 - MTD, the energy sector is the 2nd worst returning sector (-5.33%) behind technology (-5.82%).³
 - QTD, the energy sector is the only negatively returning sector (-11.10%).³
- In the U.S., time spent at the workplace has declined nearly 30% from January of this year, while time spent at parks has increased 66%.⁴
- A record 52% of young adults (18-29 years old) now live with parent(s). The prior peak, as far as census data goes back, was 48% which was in 1940.⁵
- Tesla gets snubbed (for now): S&P announced preliminary changes to the index, and noticeably absent was Tesla. The S&P 500 will add Catalent, Etsy, and Teradyne while removing H&R Block, Coty, and Kohl's.
- Mall owner Simon Property Group (together w/ Brookfield Property Partners) has agreed to acquire J.C. Penny out of bankruptcy. Simon adds J.C. Penny to a list of other bankrupt retailers (Aeropostale, Forever 21, Brooks Brothers, and Lucky Brands) that it has jointly rescued in a bid to keep mall tenants alive.²
- Manhattan rental listings sit at a record 15,025 units – more than 2x last year's figure.⁶
- Leading up to the recent sell-off, retail option trading had reached a speculative fervor – In July, single stock option volumes surpassed single stock volumes for the first time ever, while in August premiums paid for call options (bets on stocks going higher) reached 20-year highs helping drive last month's gains.⁷
- ECB announced no new policy measures during its meetings last week, but many economists expect the ECB to expand its bond buying program in December to combat deflationary trends present in the EU.⁸

EXPECTATIONS

- Senate Republicans proposed a new, narrowed down, stimulus bill of \$650bn (net cost of \$300bn once offset by \$350bn in funds earmarked from passage of the CARES Act that has gone unused). Unsurprisingly the bill did not pass, and it is increasingly unlikely that Congress will pass any new stimulus before elections.
- Yoshihide Suga, the current Chief Cabinet Secretary—similar to a US chief of staff—is likely to replace Shinzo Abe as leader of the ruling LDP party and become Japan's new Prime Minister after a final vote of the LDP caucus on Monday 14-September. Suga has secured the backing of five out of the LDP seven main factions.

ONE MORE THOUGHT

Since the end of March 2020 corporate bonds, both investment grade and high yield, have been exceptional performers and have recovered from the losses suffered in Q1. But the August returns (see table) highlight a key structural difference between the investment grade and high yield markets and that is the differences in their respective maturity profiles. High yield bonds tend to have shorter maturities; they are typically issued with

Corporate	Index Market Value (Trillion)	Weight	Duration	August Return
Investment Grade	\$6.75	100%	8.60	-1.38%
Intermediate	\$4.18	62%	4.60	0.00%
Long	\$2.57	38%	15.11	-3.59%
High Yield	\$1.48		3.61	0.95%

Source: Clearstead, Bloomberg LP. Data as of 31-Aug, Bloomberg Barclays Corporate Investment Grade Index (Intermediate & Long Duration), Bloomberg Barclays High Yield Corporate Index. Past performance is not indicative of future results

¹ <https://coronavirus.jhu.edu/map.html>

² Bloomberg LP

³ Bloomberg, as of 10-September, S&P 500 sector returns

⁴ Opportunity Insights Economic Tracker, trackthrecovery.org

⁵ Pew Research Center,

⁶ Bloomberg LP, Miller Samuel Inc., Douglas Elliman Real Estate, as of 31-Aug

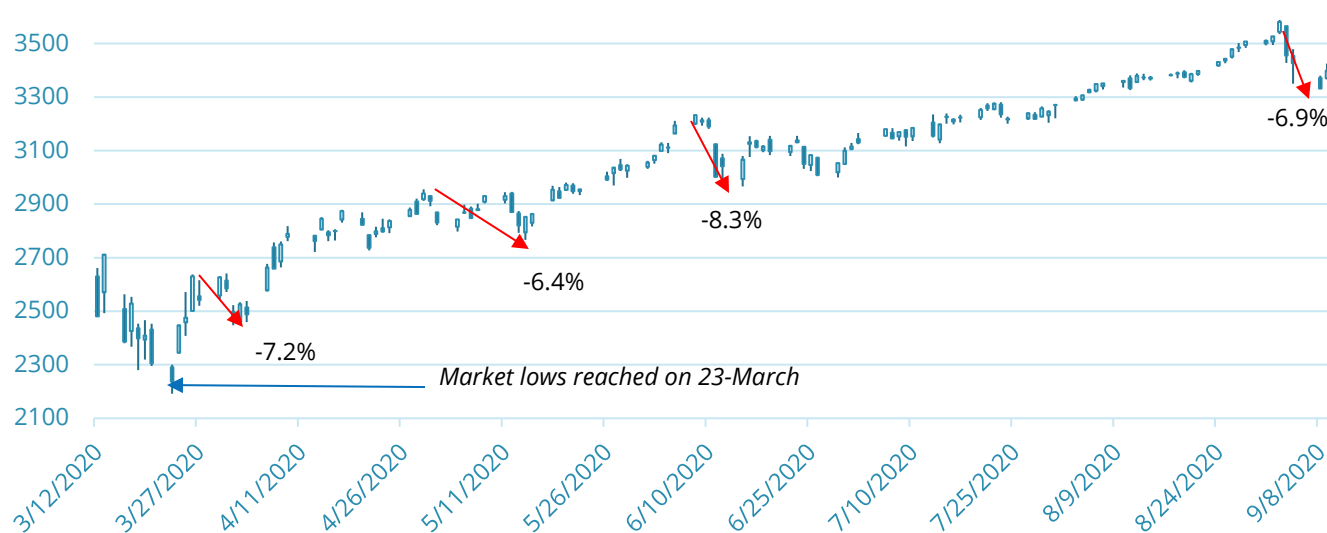
⁷ Financial Times, Goldman Sachs Global Investment Research, OptionMetrics

⁸ Financial Times "ECB to Monitor Rise of Euro After Keeping Rates on Hold" 12-Sep-2020

terms of 10 years or less and are often callable after four or five years. As of August 31, 2020, the Bloomberg Barclays High Yield Corporate index had a duration of 3.61 years versus the Bloomberg Barclays Investment Grade Index's 8.60 duration.⁹ During the month of August, the yield on 10-year Treasury securities increased from 0.53% to 0.71% and the 30-year Treasury yield went from 1.19% to 1.48%.⁹ The rise in rates had a much more significant impact on investment grade bonds (-1.38%) than high yield bonds (+0.95%).⁹ Generally, high yield bond prices are much more sensitive to the economic outlook and corporate earnings than to day-to-day fluctuations in interest rates. While U.S. interest rates are at historic lows and 'lower for longer' is the present stance, risks remain to even modest increases in interest rates. As evidenced in August, these conditions could favor high yield versus investment grade corporate bond investments.

CHART OF THE WEEK

The S&P 500 Recent Decline in Context



Source: Clearstead, Bloomberg LP, data as of 10-Sept. Past performance is not indicative of future results.

From the all-time highs on 2-Sept to the most recent lows on 8-Sept, the S&P 500 declined -6.9% - similar to prior drawdowns. The selloff was exacerbated by the technology sector which lost -11.4% over the same stretch.

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⁹ Bloomberg LP