

This month's Market Minute reflects the views of Clearstead's Research Team and was composed by [Joseph Nitting, Research Analyst](#).



OVERVIEW

The month of August saw continued momentum in capital markets amid optimism surrounding the containment of COVID-19, better-than-expected earnings releases, and improving economic data. Over the course of the month, daily COVID-19 cases in the U.S. generally trended lower, while emergency regulatory approval for new saliva-based tests helped boost investor sentiment further. Earnings releases continued to surprise to the upside during the month relative to particularly low expectations for the quarter. Economic activity also increased as existing home sales rose to levels not seen since 2006, while U.S. manufacturing activity surged to early-2019 levels¹. Markets responded in kind with domestic and foreign equity markets posting positive returns, while fixed income returns were mixed amid rising interest rates.

DOMESTIC EQUITY

As of August 31, 2020

U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	7.9%	10.6%	1.3%	10.3%
S&P 500	7.2%	13.2%	9.7%	21.9%
Russell 2000	5.6%	8.6%	-5.5%	6.0%
Russell 1000 Growth	10.3%	18.8%	30.5%	44.3%
Russell 1000 Value	4.1%	8.3%	-9.4%	0.8%

U.S. equities continued their march higher in August as optimism surrounding potential coronavirus containment boosted investor sentiment. Remarkably, despite the volatility of 2020, the S&P 500 reached new all-time highs during August. Following August's positive results, the S&P 500 is now up +9.74% on the year, while the Russell 2000 is still down -5.54%¹. During the month, large cap stocks (S&P 500 Index +7.19%)¹ outperformed small cap stocks (Russell 2000 Index +5.63%)¹.

August saw the market value of Apple exceed \$2tn, making it the first company to ever reach such a size. Apple's market value (\$2.21tn) now equates to roughly 99.10% of the value of the Russell 2000 (\$2.23tn)². Apple and its other tech giant peers like Amazon, Facebook, and Google/Alphabet helped propel large cap growth stocks (Russell 1000 Growth Index) over large cap value stocks (Russell 1000 Value Index), marking the 11th consecutive month of outperformance for large cap growth².

INTERNATIONAL EQUITY

As of August 31, 2020

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	4.3%	8.9%	-3.1%	8.3%
MSCI EAFE	5.1%	7.6%	-4.6%	6.1%
MSCI Emerging Markets	2.2%	11.3%	0.4%	14.5%
MSCI EAFE Small Cap	7.5%	11.1%	-3.5%	10.7%

Non-US equity markets moved higher in August led by developed markets (MSCI EAFE Index +5.14%)¹. Markets were buoyed by optimism surrounding better-than-expected earnings releases and economic data improvements. In emerging markets, trade tensions between the U.S. and China eased somewhat as the review of the Phase I trade deal was largely positive, while China discussed the possibility of allowing U.S. entities to audit Chinese firms. In contrast to domestic markets, growth stocks (MSCI ACWI Ex USA Growth Index) lagged value stocks (MSCI ACWI Ex USA Value Index) during the month in international markets. The U.S. dollar continued to slide against both developed and emerging market currencies, broadly boosting returns.

FIXED INCOME

As of August 31, 2020

FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.8%	0.7%	6.9%	6.5%
BarCap Global Aggregate	-0.2%	3.0%	6.1%	5.5%
BarCap US High Yield	1.0%	5.7%	1.7%	4.7%
JPM Emerging Market Bond	0.3%	4.0%	2.1%	3.8%
BarCap Muni	-0.5%	1.2%	3.3%	3.2%

Fixed income markets generated mixed returns in August. While investment grade securities generally moved lower (Bloomberg Barclays U.S. Agg Bond Index -0.81%), riskier segments within fixed income continued to grind higher during August – notably high yield (Bloomberg Barclays High Yield Index +0.95%)² and emerging markets debt (J.P. Morgan Emerging Markets Bond Index +0.30%)². The yield curve ended the month modestly steeper, with the 30-year U.S. Treasury yield up 0.28%² while the 2-year treasury yield was up 0.03%². Corporate credit spreads continued to decline during the month, bolstering returns for the high yield sector. Despite the multi-month rally in the high yield space, we continue to believe 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 remain critical.

CLOSING

The month of August benefitted from an ongoing recovery across a variety of consumer metrics as the reopening process continued. Despite the returns capital markets have generated, we expect that the pace of the recovery could be susceptible to slowing and may be accompanied by bouts of volatility. Additionally, a divide between politicians remains over the size and composition of the next round of stimulus and, with the Senate in recess until September 8th, progress continues to be slow-moving. Lastly, the presidential election is two months away and will likely take on greater importance for markets as the election season draws near. Opportunities are likely to unfold in the coming months given this backdrop.

Sources:

- 1 - Bloomberg, as of 31-August
- 2 - Morningstar, as of 31-August

Disclosures

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