Equity Market Summary

U.S. Equity Markets	Month	YTD
S&P 500	7.2%	9.7%
Russell 1000 Growth	10.3%	30.5%
Russell 1000 Value	4.1%	-9.4%
Russell 2000	5.6%	-5.5%
Russell 2000 Growth	5.9%	6.2%
Russell 2000 Value	5.4%	-17.7%

Top/Bottom Sectors	Month	YTD
Technology	12.0%	36.0%
Consumer Discretionary	9.5%	28.2%
Communica-tion Services	9.1%	16.1%
Utilities	-2.6%	-6.8%
Financials	4.3%	-17.4%
Energy	-1.0%	-39.1%

Non-US Equity Markets (in USD)	Month	YTD
MSCI AC World Ex U.S.	4.3%	-3.1%
MSCI EAFE (Developed)	5.1%	-4.6%
MSCI Emerging Markets	2.2%	0.4%
MSCI China	5.7%	20.0%
MSCI United Kingdom	3.1%	-19.6%
MSCI Brazil	-8.9%	-36.2%

Non-US Regions (in USD)	Month	YTD
Developed Americas	5.4%	-1.4%
Developed Asia	7.0%	-2.7%
Developed Europe	4.0%	-5.2%
Emerging Americas	-6.2%	-32.2%
Emerging Asia	3.2%	9.6%
Emerging EMEA	1.4%	-16.7%

What's changed since our last report (on July 31, 2020):

Coronavirus (CV-19) continues to spread and the global rate of infection is doubling every seven weeks. Total cases grew by 43% in August, relative to 70% in each of prior two months. Deaths are slowing to a doubling once every 11.6 weeks, from once every 10.1 weeks at the end of July. In the U.S. cases are doubling once every eight weeks, a significant deceleration from the month ago level of six weeks. In 20 states Reproduction Rates (R_0) are over 1, down from 35 states a month ago. We remain convinced that full recovery is dependent on a widely available and effective vaccine and the odds of an early 2021 option continue to rise. There are currently nine vaccines in Phase 3 Clinical Trials and a total of 36 vaccines in some stage of clinical trials on humans.

Where are we now:

CV-19: Most case and death metrics have improved globally and in the U.S. over the past month. There are now more than 25 million cases and 850,000 deaths (25% M/M rise) worldwide. Daily new cases are averaging 25,000 over the past week, about the same level as a month ago. Daily new deaths are averaging 5,400 over the past week, down from 5,700 at July 31 and well below the peak of 7,000 in mid-April. South America is the new cases hot spot with four countries from the continent ranking among the top ten in daily new cases over the past week. Encouragingly, positive test rates in the U.S. are back below 6% for the first time since late June, despite the average number of daily tests administered having dropped by 100,000 over the past month (lower number of tests administered have historically correlated with higher positive test rates). Abbott Labs announced a new $5 antigen test that will provide results in just 15 minutes. Abbott expects to ship 50 million tests per month beginning in October. No doubt this is a huge step forward for testing in the U.S. But for reference, in the U.S. there are more than 90 million students and education system employees (daycare through college). There are another 19 million healthcare workers and doctors. 50 million tests is a big number but the U.S. is still far from a truly ubiquitous, affordable, rapid testing program.

Economy:

- 2Q'20 U.S. real GDP fell 32.9% Q/Q annualized, a post-WWII record. Current consensus estimates for 3Q'20 real GDP are for an approximately 20% Q/Q annualized increase. Full year GDP is expected to decline approximately 4.5%, slightly worse than the peak to trough decline in the Global Financial Crisis.
- Initial jobless claims remain significantly elevated at greater than 1 million per week (seasonally-adjusted) and continuing claims remain above 14 million. A second wave of layoffs appears likely as fiscal stimulus has stalled, large companies are realizing they can operate with fewer employees and bankruptcies filings are running at record levels.
- The U.S. personal savings rate remains elevated at 18% but that is down from the 33% reading in April and is a positive harbinger of future consumer spending.
- On Aug. 27, Fed Chair Powell outlined a policy approach that can effectively be summarized as "lower for longer to support fuller employment." The Fed's new policy guidelines can only be viewed as highly supportive of financial assets as the Fed's balance sheet is likely to remain inflated and rates are likely to remain low, at least for the next five years. The importance of this policy stance on risk assets should not be underestimated. While it is no guarantee of higher assets prices, see Japan, it is certainly a strong stimulant.
- Current economic data has been in a positive trend, as reflected in the Citi U.S. Economic Surprise Index hitting all-time highs. Housing remains a significant bright spot with new and existing home sales hitting post Global Financial Crisis highs. With mortgage rates hitting all-time lows the surge in the housing market is not likely to abate anytime soon.

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Earnings:

- To date, 491 (98%) S&P 500 companies have reported second quarter earnings. Earnings are down 30% Y/Y vs. and expected decline of 43%, and revenues are down 9%, vs. an expected decline of 12%.
- 82% of companies have reported better than expected earnings with an aggregate earnings beat of an eye-popping 23%, compared to a long-term average of just over 3%. Consumer Discretionary stocks are reporting the largest earnings and second largest revenue beats, although earnings for the sector are still expected to fall 66% Y/Y. Information Technology, Health Care and Utilities are the only sectors expected to report a Y/Y rise in earnings at 5.3%, 6.7% and 6.4%, respectively.
- Financials are expected to post the largest Y/Y revenue gain at 5.8%, followed by Information Technology at 4.7%. Despite an expected $21 billion Y/Y increase in Financials revenues, earnings are down 27%, or $43 billion, due to large loan loss provisioning.
- 2Q'20 share-weighted earnings for the S&P 500 are expected to fall $100 billion Y/Y to $235 billion.
- 3Q'20 earnings are forecast to decline 23% Y/Y or $77 billion on a share-weighted basis. Every sector is forecast to see a Y/Y decline in earnings with Information Technology showing the strongest forecast at a 1.8% decline and Energy pulling up the rear at a 107% decline.
- 3Q'20 revenues are forecast to decline 5%, with four sectors—Health Care (+7.5%), Information Technology (+1.1%), Consumer Staples (+0.9%) and Utilities (+0.9%) expected to see Y/Y gains.
- Current consensus forecast for S&P 500 CY'20 earnings are $130 per share, down 20% Y/Y, before rising to an all-time high of $166 per share in CY'21.

Financial Markets:

- Equity markets logged their fifth straight monthly advance in August with a 7% rise for the S&P 500. Over the past five months the S&P 500 is up 36.5%, its best five-month gain since the 1930's.
- The dominance of growth stocks continued in August, as the Russell 1000 Growth has now outpaced the Russell 1000 Value by 39.8% year-to-date and 77.4% over the past three years. The three year peak of growth stock outperformance in the TMT bubble was 92.4% for the period ended Mar. 31, 2000 [for the five years following Mar. 31, 2000, the Russell 1000 Value outpaced the Russell 1000 Growth by 73.8%].
- The average stock in the S&P 500 trails the index by more than 10% YTD and the average Information Technology stock trails the benchmark sector return by more than 23% YTD.
- Despite unemployment still north of 10% and still depressed corporate earnings, market multiples have risen 10% this year with the S&P 500 currently trading at 24x next 12-months consensus earnings and 21x CY'21 expectations.
- 10 Yr. treasury yields approached a 3-month peak in late August but have moved down since Fed Chair Powell's speech on Aug. 27. Given the Fed's policy stance, a significant break out to the upside seems unlikely in the near-term.

Summary:

The seeming disconnect between equity market performance and the current economic environment, of elevated unemployment and weak demand, remain a significant concern. High unemployment is an unstable state for the economy. However, this past week the Fed reiterated, once again, their support for the economy and made it clear accommodative policies will remain in place for many years to come. But as we've stated previously, the Fed can't create demand; therefore, fiscal policy needs to fill the void and D.C. appears stuck in neutral as the bi-partisan actions of late March have given way to election year posturing by both parties. Biden's lead in the polls has narrowed and the betting odds are no longer predicting a sweep by the Dems. A declining likelihood of significant increases in corporate taxes should be supportive of the markets. Earnings are surprising dramatically to the upside and current expectations call for peak earnings to be reached in mid–2021. News regarding a vaccine, testing and treatments are generally surprising to the upside as well. We remain convinced an affordable, effective and widely available vaccine is the key to a full economic recovery and based on current projections the markets clearly expect that will be the case by mid-2021.