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July 2020: Market Review

Stock markets extended their rally in July despite a marked increase in Covid-19 infections in the month. Initial unemployment claims in the U.S. increased for the first time since March, showing signs of a stalling economic recovery. However, positive news regarding potential vaccine development, and further stimulus from Europe, boosted stock market returns. In addition, companies have reported better-than-expected earnings for the second quarter, albeit surpassing a low hurdle. The S&P 500 Index gained +5.6%, ending the month in positive territory for the year (+2.4%). The Dow Jones Industrial Average increased +2.5% in July while the NASDAQ Composite increased +6.9%.

In the United States, economic data is showing the detrimental effect of the virus. The number of new daily cases in the U.S. broke the record set in June and total deaths surpassed 150,000. The second quarter advance real GDP reading estimates a drop of 32.9% annualized (or a -9.2% decline from Q1), which was the largest quarterly economic contraction since these quarterly statistics started being formally tracked in 1947. In addition, the dollar showed weakness this month, recording the biggest monthly drop in a decade (-4.1%). Consumer confidence surprised on the downside in July as infections increased rapidly in the southern states. Trade tensions between the U.S. and China also began to heat up as the U.S. is putting more restrictions on Chinese companies. Also, Congress has not passed a new stimulus bill to date as they spent the last week of July deadlocked on the weekly unemployment payments. The Federal deficit saw the biggest monthly increase on record (June $864 billion). The deficit was caused by spending on government relief programs as well as a decline in tax revenue. Among commodities, WTI crude oil ended the month at $40 a barrel, broadly unchanged from June. Gold hit an all-time high and ended July at $1,963, driven by inflation expectations and low interest rates.

Within domestic equities, growth outperformed relative to value across all capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index appreciated +7.7% versus a +4.0% gain for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index climbed +8.0% for the month while the Russell Midcap Value Index gained +4.7%. In small cap stocks, the Russell 2000 Growth Index added +3.4% during the month while the Russell 2000 Value was up +2.1%.

Major international indexes appreciated in July despite signs of coronavirus resurgence at the end of the month. The MSCI EAFE Index increased +2.3% for the month while the MSCI Europe Index returned +3.8%. The MSCI Pacific Index declined -0.3% in July as infections spiked in Japan. The MSCI Emerging Markets Index had another strong month, gaining +8.9% due to strength in China (+12.3%), Taiwan (+14.9%), and Brazil (+14.0%).

U.S. treasury markets posted gains in July as the Fed reiterated their commitment to providing as much support as necessary. The yield on the 10-year Treasury closed at 0.55%, lower than last month's close of 0.66%. The Bloomberg Barclays U.S. Aggregate Bond Index added +1.5% for the month while the Bloomberg Barclays Treasury 20+ Year Index climbed +4.4%. The Bloomberg Barclays U.S. Treasury Index also posted a gain of +1.1% in July. The Bloomberg Barclays Corporate High Yield Bond Index outperformed again, increasing +4.7% and crept into positive territory for the year (+0.7%).

While the U.S. equity market (S&P 500 Index) has turned positive through July (+2.4%), the results are heavily influenced by a handful of strong-performing technology stocks (FAAMG), which comprise over 20% of the index. An equal-weighted version of the benchmark index shows a decline of -6.5% through July. Global governmental monetary and fiscal support has softened the negative impact of this historical economic contraction. Nevertheless, the economy remains subject to the travails of the pandemic. As coronavirus cases show a resurgence across the world, the recovery has tapered with renewed lockdown restrictions being increasingly imposed. There are early signs of progress toward a vaccine, but much uncertainty remains on the timing. In addition, the U.S. and China trade tensions could be another market headwind in the coming months. While there are significant risks going forward related to the virus, the Federal Reserve and, presumably, Congress stand ready to cushion any further economic shortfall.