FOURTH STREET PERFORMANCE PARTNERS
Independent Investment Consultants

August 2020: Market Review

August was another strong month for global equities driven by positive vaccine sentiment, government stimulus, and signs of economic recovery. As several companies are beginning the final stage of vaccine testing across the world, investors are hopeful there will be approval for widespread use as early as this fall. Another tailwind for equities was the Fed announcing their average inflation policy, which allows future inflation to exceed their 2% target. Therefore, the Fed can keep rates low for a longer period of time as they will not have to raise rates when inflation reaches 2%. Additionally, the U.S. and China trade talks resumed and showed signs of progress. The S&P 500 Index gained +7.2%, hitting an all-time high in August. The Dow Jones Industrial Average increased +7.9%, ending the month in positive territory year-to-date (+1.3%). The NASDAQ Composite rose +9.7%, driven by technology stocks.

In the United States, virus infections declined in the month as increased restrictions in the southern states took effect. The number of new daily cases remained under 50,000 for over a week, declining to a two-month low. The second quarter real GDP reading estimate was revised upward to -31.7% annualized. The housing market set records in July as existing home sales surged 24.7%. from the previous month, the highest pace since 2006. The dollar continued to decline during the month, hitting a two-year low due to low interest rates. The unemployment rate fell to 10.2% in July as employers added 1.8 million jobs to the economy. Although this marks the third straight month of an increase in hiring, unemployment remains significantly elevated. Among commodities, WTI crude oil ended August at $43 a barrel, up from $40 in July. Gold ended the month at $1,968, modestly higher than its close of $1,963 in July.

Within domestic equities, growth outperformed relative to value in large and small-cap stocks. However, mid-cap value stocks outperformed growth this month. Within large cap stocks, large platform technology stocks caused the Russell 1000 Growth Index to climb +10.3% versus a +4.1% gain for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index added +2.7% for the month while the Russell Midcap Value Index appreciated +4.0%. In small cap stocks, the Russell 2000 Growth Index increased +5.9% during the month while the Russell 2000 Value was up +5.4%.

Major international indices also posted gains during the month as governmental support and improving economies increased investor confidence. The MSCI EAFE Index increased +5.1% for the month. The MSCI Europe Index returned +4.1% and the MSCI Pacific Index gained +7.0%. The MSCI Emerging Markets Index (+2.2%) underperformed this month as some countries saw a significant increase in virus cases. The largest detractors for the month were Brazil (-9.0%), Taiwan (-2.1%), and South Africa (-1.3%).

U.S. treasury markets posted declines for the month after the Fed rolled out their new policy construct that will keep rates low even after inflation hits their 2% target. The yield on the 10-year Treasury closed at 0.70%, higher than last month's close of 0.55%. The Bloomberg Barclays U.S. Aggregate Bond Index declined -0.8% for the month while the Bloomberg Barclays Treasury 20+ Year Index dropped -4.5%. The Bloomberg Barclays U.S. Treasury Index also fell -1.1% in August. Investors added to riskier assets this month, causing the Bloomberg Barclays Corporate High Yield Bond Index to rise +1.0%.

COVID-19 continues to impact economies across the world. Extensive fiscal and monetary support have cushioned the economic shock and boosted equities to all-time highs (S&P 500) as low interest rates globally provide little competition for investors going forward. However, the resurgence of the virus in Europe shows the risk remains prevalent until a vaccine is available for widespread use. In addition, the uncertainty encompassing the U.S. and China trade tensions and the U.S. national election provide other potential market headwinds in the coming months. While U.S. equities seem fully valued and there are significant risks going forward related to the virus, liquidity conditions are extremely accommodative and, despite posturing to the contrary, it is likely that neither major U.S. political party will stand before voters in November without authorizing additional economic support.