MARKET REVIEW & OUTLOOK

JULY 2020

ASHTON THOMAS
PRIVATE WEALTH

MARKET PULSE

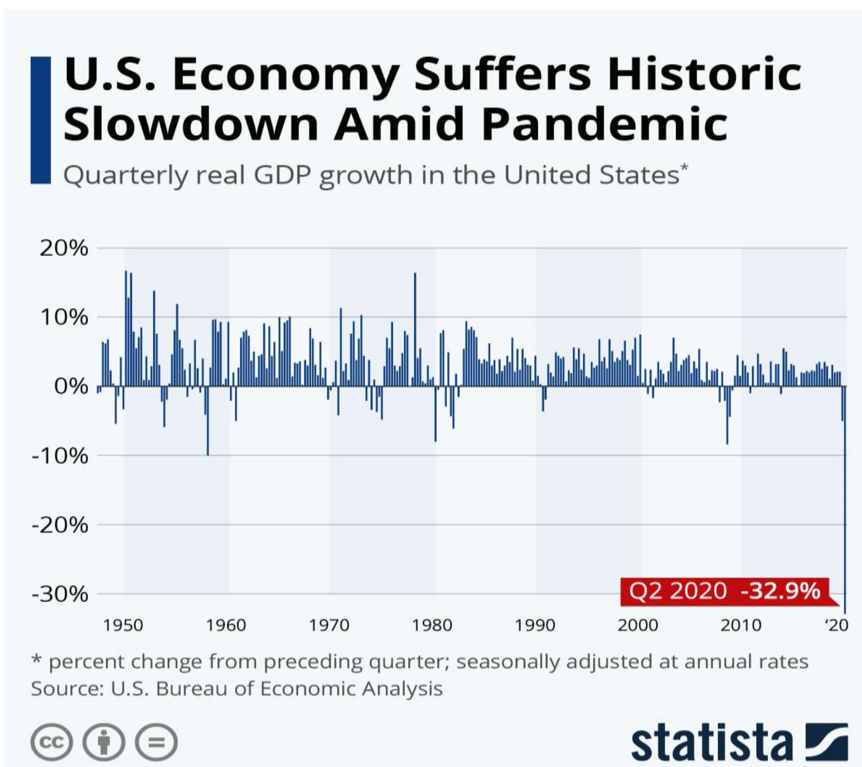
KEY TAKEAWAYS

- The rally from the March crash extended through July, with the S&P 500 closing at a new month-end record high.[1]
- The second quarter 2020 U.S. GDP print was bad, as expected, down 32.9% on an annualized basis.[2]
- U.S. Treasury yields continue to decline even in the face of strong equity returns.
- Many economic stimulus benefits expired at the end of July. Will Congress reach an agreement to provide the economy/markets with additional fiscal stimulus dollars?

The U.S. Economy: A Checkup

The initial estimate for second quarter GDP came out at an annualized -32.9%, the worst reported GDP since records started over 70 years ago (see chart below).[2] Many economists had forecasted a significant drop, so as bad as the number looks on paper, it was not really a surprise. Now that we have moved one third of the way through the third quarter, a big rebound appears to be at hand.

However, continued slowing and/or outright reversal of reopening plans brings into question the amount of spring in the economy's step. In addition, the government is tangled in another battle over the size and shape of the next stimulus package, which saw several major components expire at the end of the month.[3]



Source: https://www.statista.com/chart/22426/long-term-gdp-growth-in-the-united-states/

Stocks and Bonds

The fixed income markets experienced significantly less volatility this month, with 10-year U.S. Treasury yields declining consistently throughout the month, set alongside another strong rally in equities. The Fed left interest rates unchanged in the least surprising news of the month and extended some of their programs through year end.[4] High-quality fixed income, as measured by the iShares US Aggregate Bond ETF, was up 1.49% for the month.[5] The U.S. 10-year treasury bond price rallied during the month with yields ending lower by over 10 basis points.[6] The yield ended at 0.54%, down from June's close of 0.65%.[7]

U.S. stock market results ended on a positive note after a solid rally, with the S&P 500 closing at a new record high month-end close (see the chart below)[8]. The Dow Jones Industrial Average climbed 2.38%,[9] the S&P 500 jumped by 5.51%,[10] and the small cap Russell 2000 rallied 2.71%.[11] The international markets were equally strong. The MSCI EAFE iShares Core International Developed Markets ETF Index rose 2.10%[12] and the MSCI Emerging Markets iShares Core ETF Index soared 8.63%.[13]

Source: https://yhoo.it/2PlEOoe

In July, we saw a lot of green for most sectors of the S&P. The best performers were…[14]

- Utilities: +7.80%
- Communication Services: +7.57%
- Consumer Discretionary: +7.27%

The worst performer and only loser was…

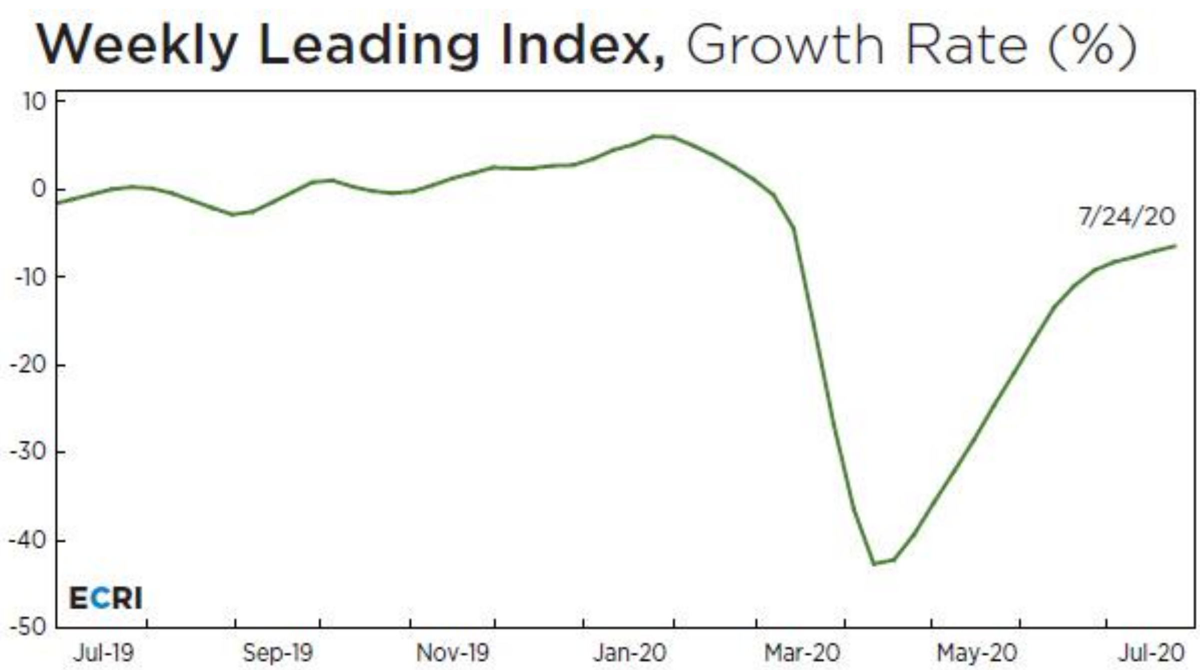
- Energy: -4.81%

Slow Flow Oil

July was a very stable month for oil. The current NYMEX WTI Crude Oil futures settled at $40.27, posting a modest gain of over 2% from the prior month close of $39.27 a barrel.[15] The price for RBOB gasoline closed modestly lower by just over 2% for the month of July. Overall, the energy commodity space was relatively quiet for the month, a notable change from the last several months.[16]

The Rest of the Details

The U.S. and then several other countries started slowing the pace of reopenings following the COVID-19 pandemic shutdowns earlier this year. However, many economic indicators continued to show signs of life bouncing back from the depths of the pandemic. The June ISM Manufacturing Index jumped 9.5 points to 52.6 from May's reading of 43.1.[17] Additionally, the ISM Services Index leapt to 57.1 from 45.4 in May.[18] Any reading above 50 generally indicates improving conditions.[17,18] Keep in mind, these are in comparison to last month, which was the initial rebound off very depressed levels. The modest bounce in May turned into a big bounce in June. Consumer confidence softened to 92.6 in July as fears of a second COVID-19 wave started to gain traction. This compares to an upwardly-revised figure of 98.3 in June.[19] The unemployment rate posted another drop, coming in at 11.1%, as the economy added a forecast-beating 4,800,000 jobs in June.[20] This positive news comes with a caveat, as we have started to see an uptick in the initial unemployment claims, which rose for two consecutive weeks to close the month.[21,22] The Consumer Price Index for All Urban Consumers (CPI-U) jumped +0.6% in June on a Seasonally-adjusted basis. Over the last 12 months, the All-Items Index, likewise jumped +0.6% on a non-seasonally-adjusted basis.[23] Overall, these numbers show continued signs of green shoots in the hoped-for economic recovery, though recent pauses should temper expectations for the robustness of said recovery. As the chart below shows, we have seen some good strength the last couple of months, but still have some work to get back to "normal."



Source: https://twitter.com/businesscycle/status/1289207001323577344?ref_src=twsrc%5Egoogle%7Ctwcamp%5Eserp%7Ctwgr%5Etweet

Summary

The story of the last few months hasn't really changed. The equity markets continue to rally strongly on monetary and fiscal stimulus and hopes that the economy will get back to normal. The initial depths of global contraction seem to have been found, largely thanks to monetary and fiscal stimulus.

Now, we are seeing potential signs of a "second wave" of COVID-19, and states and countries are taking precautions to prevent another widespread pandemic crisis. However, avoiding another health crisis may potentially push the country back into an economic crisis. Additionally, we are rounding the bend on the path to the November election, which seems likely to create a bit of consternation in the markets. For now, we will continue to let the diversified strategies do their work. The rules-based defense mechanisms have all reversed and are bullishly positioned if markets continue to rally.

Potential roadblocks include the aforementioned second wave of the virus and, of course, the ongoing debate in Washington, D.C. over the next economic stimulus package. Further, China/U.S. relations seem to be taking a turn for the worse, keeping the potential for a slowdown or reversal of the global recovery on the table.

Expectations and valuations for U.S. equities remain somewhat rich. The opportunistic components of the core Ashton Thomas strategies have reengaged in risk, but we would still advise against stretching for additional risk. Many unknowns persist which could potentially disrupt the buoyant themes of late.

We will continue to wait for clarity on global economic and political affairs and monitor market indicators. As we do so, we will help your advisor remain aware of trends and opportunities which may benefit or impact you and your money.

IMPLICATIONS FOR YOUR FINANCIAL WELLNESS

- ***You***: Market volatility and economic uncertainty can cause stress. Adding health concerns and concerns for the health of extended family members can increase that stress. Your financial plan and long-term investment objectives should remain in focus for you, not what the markets do day to day. Your financial wellbeing is paramount to your advisor, just like your physical wellbeing is to you. Avoid devoting too much attention to financial and economic news headlines and stay focused on you and the ones you love. We will help continue guiding you along the path to your Ideal Financial Life.
- ***Your Advisor***: Your advisor is your best defense against getting off course financially. Stay connected regarding any changes to your financial goals, family responsibilities, or professional objectives. Your advisor and our team at Ashton Thomas are here to answer questions and help you stay focused on what matters most to you.

Kevin Churchill, CFA®, CFP®
Chief Investment Officer
Ashton Thomas Private Wealth

References:

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24 https://tinyurl.com/y8zngmav (use Interactive Chart for the last 3 months)