MARKET REVIEW & OUTLOOK

AUGUST 2020

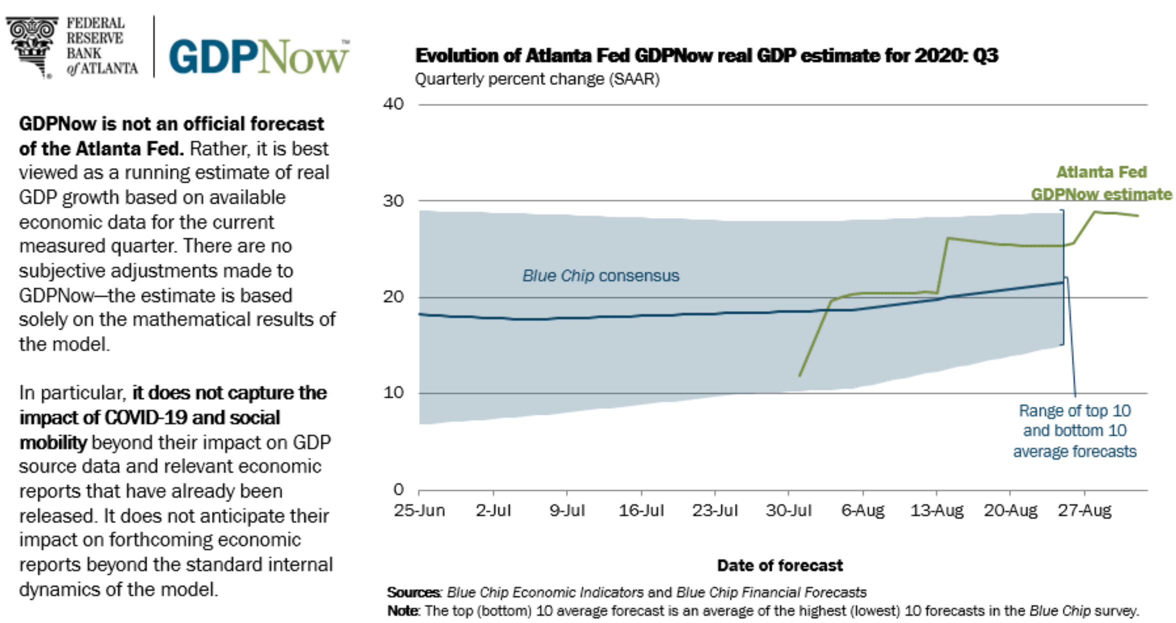
ASHTON THOMAS PRIVATE WEALTH

KEY TAKEAWAYS

- The rally from the pandemic-induced March crash went into hyper mode in August, with the S&P 500 closing at record highs almost daily.[1]
- Third quarter 2020 U.S. GDP is forecasted to rebound strongly from the prior two quarters. GDPNow is forecasting a 28.5% increase in GDP (see chart below).
- Treasury yields increased on the back of the Fed announcing that an average of 2% inflation will now be the target, allowing inflation to remain over 2% before considering action.[2]
- Another month went by without additional economic stimulus benefits coming out of Congress, making the equity market leap even more stunning.

The U.S. Economy

The most recent estimate for second quarter GDP came out at an annualized -31.7%, slightly better than the initial report.[3] Now that the second quarter is in the rearview mirror, the third quarter is expected to report blockbuster growth of 28.5% per the GDPNow forecast shown in the chart below. If anything like this materializes, it could be a record for quarterly GDP growth. Forecasters are sanguine about the lack of new fiscal stimulus from the U.S. government. They have also noted their estimates are based on the current abatement of COVID-19 cases in the Sun Belt and the hope the virus does not spread to northern regions once again.

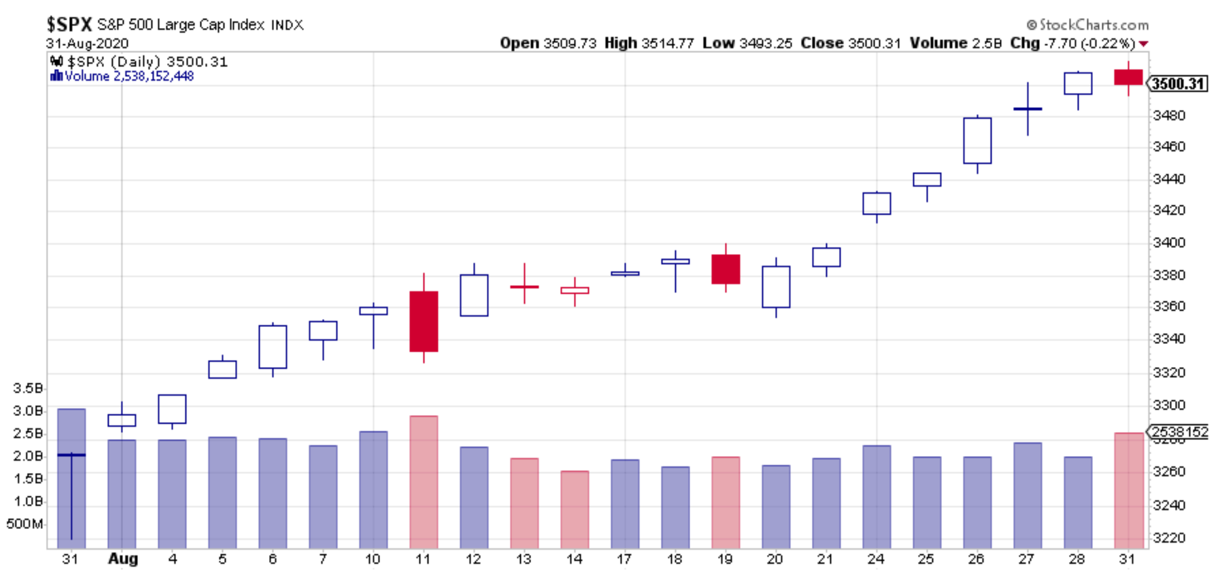


Source: https://www.frbatlanta.org/cqer/research/gdpnow

Stocks and Bonds

The fixed income markets ended August with a fair amount of volatility. We saw 10-year U.S. Treasury yields increase significantly in two main moves during the month. The first was a mid-month surge as the Fed took a step back from discussion of yield curve control, which would have targeted a maximum acceptable rate for longer term treasuries. The second move came during the Jackson Hole meetings where the Fed announced they would no longer target a maximum 2% inflation threshold, but would focus on "average" 2% inflation target going forward. It has been many years since the Fed hit their target. This leaves open the possibility of prolonged inflation over 2%. However, as the 1970s showed us, perhaps it is best to careful what we—or the Fed, at least—wish for.[4] Once the "inflation genie" is let out of the bottle, it can be hard to get it back under control, contrary to Bernanke's infamous statement that he could "raise interest rates in 15 minutes,"[5] presumably to address inflation concerns. The rise in government yields also hurt high-quality fixed income, as measured by the iShares US Aggregate Bond ETF, which was down -0.81% for the month.[6] The U.S. 10-year treasury bond price declined during the month with yields ending higher by nearly 16 basis points.[7] The yield ended at 0.69%, down from July's close of 0.54%.[7]

The U.S. stock market continued to soar during the month, extending the current S&P 500 rally to five months. The month was so good that, except for a last-minute selloff, the S&P 500 would have closed with six consecutive record highs (see the chart below: blue = up day, red = down day). The Dow Jones Industrial Average jumped 8.06%,[8] the S&P 500 soared by 7.65%,[9] and the small cap Russell 2000 climbed 5.50%.[10] The international markets were positive but no match relative to the U.S. The MSCI EAFE iShares Core International Developed Markets ETF Index rallied 5.47%[11] and the MSCI Emerging Markets iShares Core ETF Index rose 2.38%.[12]



Source: http://schrts.co/zjrzylty

In August, we saw a lot of green for most sectors of the S&P. The best performers were…[13]

- Technology: +11.88%
- Consumer Discretionary: +9.55%
- Communication Services: +8.83

The worst performers were…

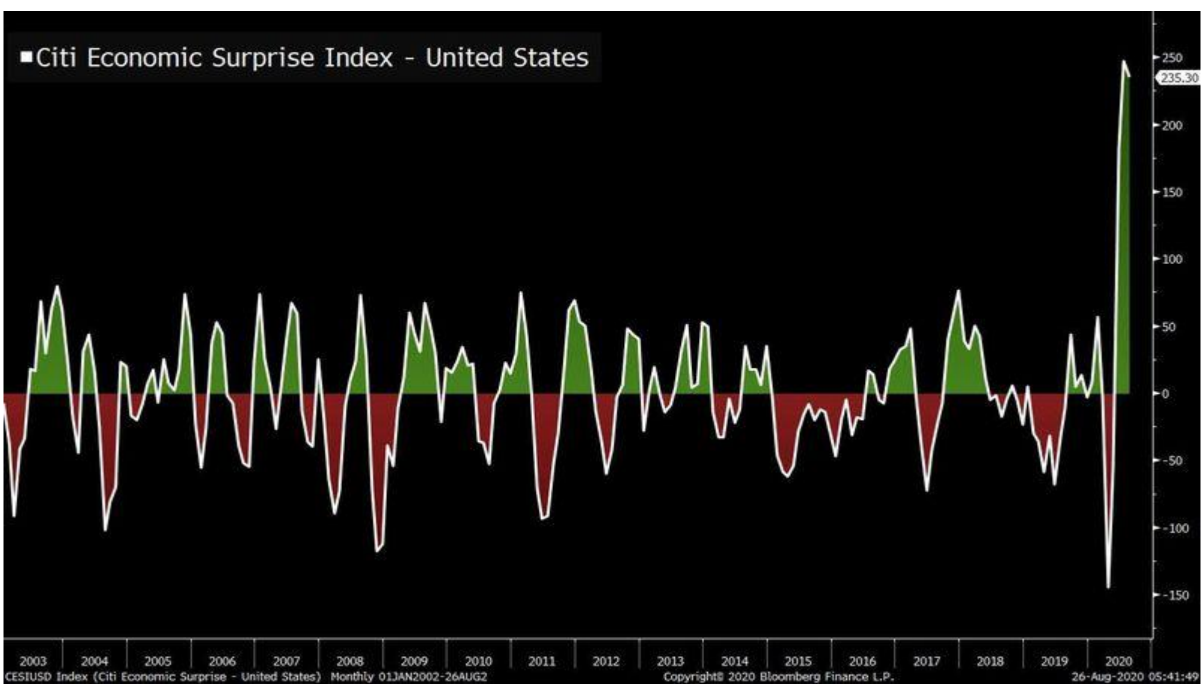
- Utilities: -2.60%
- Energy: -1.05%

Slow Flow Oil

August was another stabile, slow grind higher for oil, without a lot of news flow. The current NYMEX WTI Crude Oil futures settled at $42.61, posting a solid gain of almost 6% from the prior month close of $40.27 a barrel.[14] The price for RBOB gasoline closed modestly higher by just 3.63% for the month of August.[15] Overall, the energy commodity space was relatively stable once again. Though the Gulf was hit by two hurricanes (Laura and Marco) last week and more storms appear headed that way, so oil may make headlines again soon, unfortunately.[16]

The Rest of the Data

The U.S. and several other countries have had fits and starts with reopening 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 July ISM Manufacturing Index increased 1.6 points to 54.2 from June's reading of 52.6.[17] Additionally, the ISM Services Index increased to 58.1 from 57.1 in June.[18] Any reading above 50 generally indicates improving conditions.[17,18] Consumer confidence sagged to 84.8 in August, as continued fears of a second wave of COVID-19 grew, though by late August those fears are appearing to no longer be as warranted. This compares to an downwardly-revised figure of 91.7 in July.[19] The unemployment rate posted another drop, coming in at 10.2%, as the economy added another forecast-beating 1,763,000 jobs in July.[20] The Consumer Price Index for All Urban Consumers (CPI-U) again jumped +0.6% in July on a Seasonally-adjusted basis. Over the last 12 months, the All-Items Index, climbed +1.0% on a non-seasonally-adjusted basis.[21]



Source: https://www.bloomberg.com/news/newsletters/2020-08-26/five-things-you-need-to-know-to-start-your-day

Overall, these numbers show continued signs of the hoped-for economic recovery and potentially record-setting growth in GDP, as noted above, though from a lower base. As the chart on the previous page shows, we have seen some good strength the last couple of months and the economic surprises have been, well, surprising to many.

Summary

The story of the last few months hasn't really changed. The equity markets continue to rally strongly on monetary support and hopes for continued fiscal stimulus that last long enough to get the economy back to "normal." Currently, the economy has been divided into the work from home economy—i.e., Zoom, Amazon, Netflix and other companies that benefit from people being in their homes more—and the others—services like restaurants, bars, travel, such as airlines, hotels and rental cars. If things ever get back to the normal, we knew before the pandemic, likely the current "haves" will see their growth slow and the current "have-nots" will likely see a robust recovery. Of course, the ultimate question right now is: "When?" Unfortunately, there is really no easy answer, though lots of people and organizations are working to get us answers sooner than later. The "Sun Belt" wave of COVID-19 seems to have abated for now, but leaves the lingering question of if and when would the wave "migrate" northward, starting a second wave of COVID-19 outbreaks in the northern half of the country.

The largest potential known obstacle to continued green screens for investors is the election, which is now only two months away. The scuttlebutt on the street is that the market needs a strong selloff to derail Trump and open the door for Biden. As the chart on the previous page shows, "they" are not succeeding if that statement is indeed true. It appears at this point that the markets do not really care who wins. It may turn out that the bigger concern for the markets ends up being whether or not there is a clear winner. If we look back to election night in November 2016, around midnight the Dow Futures were down 5.6%, as Trump was declared the winner in Florida.[22,23] This created the temporary appearance that the nation could be in for a deadlocked election, like Bush vs. Gore in 2000.[24] The market was spooked by this possibility, as the rhetoric between Clinton and Trump had already been very heated. Had "Bush vs. Gore 2.0" played out, the path to resolution probably would have been very contentious. As the night continued and it was no longer viewed as a potential deadlock, the markets recovered.[25] With this election cycle looking even more contentious and the emotions of the country on edge for many reasons, the impact of a contested outcome or a deadlock is a wildcard which should not be overlooked. In fact, the Biden campaign has already recruited 600 post-election lawyers to meet the challenge and the Trump campaign is likewise hiring post-election lawyers.[26] If the election comes down to a deadlock, it may be that the only winners will be the highly-paid post-election lawyers duking it out for months on end. Hopefully, there will be a clear winner and everyone will be able to put the election behind them on November 4th.

Given all that has been discussed, we suggest remaining focused on your long-term financial plan, but also making sure your portfolio is appropriately weighted. It may be an opportune time to capture some of the gains in equity returns and reallocating them to less volatile asset classes, such as fixed income. Expectations and valuations for U.S. equities remain somewhat rich at this time. 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. Speak with your advisor if you have specific questions about your portfolio or financial situation.

We will continue to wait for clarity on global economic and political affairs, and actively 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:

1 https://tinyurl.com/y8zngmav (use Interactive Chart for the last 3 months)
2 https://www.zerohedge.com/economics/watch-live-fed-chair-powell-explains-why-years-higher-inflation-good-you
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