

Market Pulse

from the Investment Advisory Group

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In Focus

As of August 28, the S&P 500 is on track for its best August since 1984 with a 7% return. Several factors propelled the S&P and other indices to record highs last week.

- Stimulus from the Federal Reserve (Fed) and Washington has supported the risk-on environment for stocks. The Fed's new policy framework should continue to do so.
- S&P 500 Q2 earnings marked the worst quarter since Q4 2008 with a 32% decline, while the results saw a record 23% positive surprises compared to previous June 30 estimates. Despite a brutal Q2, US companies proved far more resilient than many feared.
- Over the last month, 2020 earnings revisions have been positive for all 11 S&P 500 sectors with 2021 guidance reflecting a broad-based earnings recovery to levels last seen at the end of 2019. However, the uneven path to earnings recovery is inextricably linked to the economic recovery from COVID-19.
- Dividend cuts/suspensions have reversed since the spring as recent dividend actions have been overwhelmingly positive. The last 90 days have seen 33 positive dividend actions against only 8 negative dividend actions.

The next 90 days may experience a choppy market. After the rapid "V-shaped" market recovery since March, short-term volatility risks have risen as we enter the home stretch this election season, as we have seen in presidential election years since 1992. We caution against mixing politics and polls with your portfolio by staying true to your long-term objectives as elections occur within the context of the economic cycle, not the other way around.

A Look Back

- The S&P 500, NASDAQ Composite and MSCI All-Country World indices all reached new highs last week, buoyed by continuing accommodative policy from the Fed.
- Fed Chair Powell's speech introduced a newly modified policy framework that deviates from previous hard targets for employment and inflation.
- The conclusion of the Democratic and Republican conventions has set the stage for the upcoming debates with 2020 elections now just 60 days out.

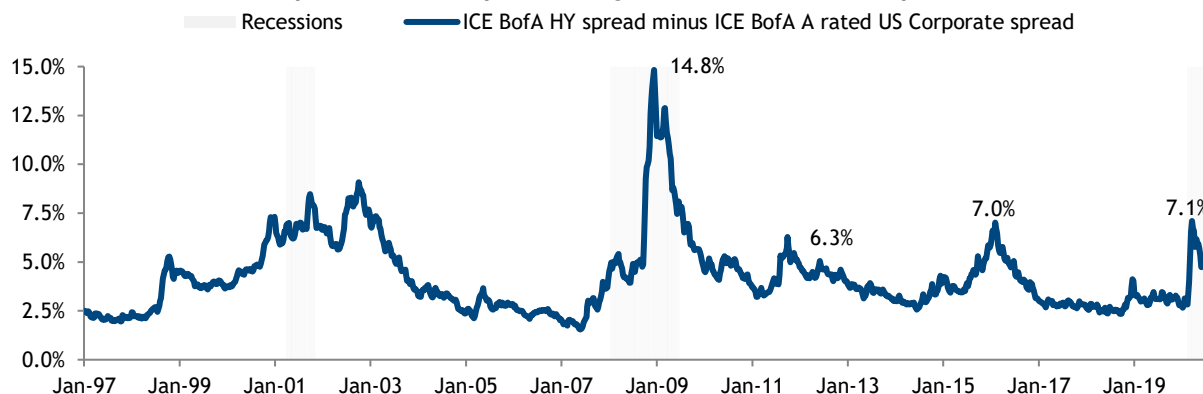
A Look Ahead

- The 2020 election has come into focus with the first of the Presidential Debates set to take place next month.
- Speeches by Five Regional Fed Presidents this week may provide context around the Fed's new policy framework.
- ISM and Markit Manufacturing purchasing managers indices (PMIs), Durable Goods and Factory Orders, as well as unemployment are on tap this week.

Chart of the Week: Corporate Spreads Have Converged but Remain Attractive

The difference between credit spreads for lower and higher-quality corporate bonds have tightened from 7.1% to 4.05% since March. The March spike and the subsequent recovery in this relationship mirrors past recessions. However, support from the Fed, investor demand for yield and the ongoing economic recovery all lend continued support for US high yield corporate bonds.

Corporate Credit Spreads: High Yield vs A Rated Corporate



Data Source: SunTrust IAG, Federal Reserve Bank of St. Louis

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As of Aug 31, 2020

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	2.74	6.40	12.02	5.02	18.27
MSCI EAFE (net)	1.69	5.17	7.63	-4.58	7.33
MSCI Emerging Markets (net)	2.76	4.08	13.38	2.28	18.74
Dow Jones Industrials	2.64	8.71	11.43	2.03	12.64
S&P 500	3.29	7.41	13.47	9.97	23.66
NASDAQ Composite	3.39	8.84	16.27	30.35	48.41
FTSE NAREIT All Equity REITs Index	2.01	1.10	4.96	-9.00	-6.27
Bloomberg Commodity Index	2.35	6.50	12.58	-9.26	-4.30
Bloomberg Barclays Aggregate	-0.51	-1.04	0.44	6.60	6.07
BofA Merrill Lynch US High Yield	0.78	0.93	5.75	0.70	3.85
Bloomberg Barclays Municipal Bond Blend 1-15 Year	-0.23	-0.34	1.06	3.26	3.14
ICE BofAML Global Government x the US (USD Unhedged)	0.42	-0.24	4.37	5.52	2.68
ICE BofAML Global Government x the US (USD Hedged)	-0.55	-0.90	-0.16	2.09	-0.12
JP Morgan GBI-EM Global Diversified Composite	1.08	-0.43	2.58	-4.49	1.75
Hedge Fund Performance (%)	Week*	MTD*	QTD*	YTD*	1 Yr*
HFRX Global Hedge Fund Index	0.19	0.90	2.27	1.16	4.43
HFRX Equity Hedge Index	0.34	1.72	2.56	-3.90	-0.28
HFRX Macro	0.16	0.02	1.80	1.07	0.70
HFRX Absolute Return Index	0.01	0.21	1.15	-0.17	2.12

* Through 8/20/20

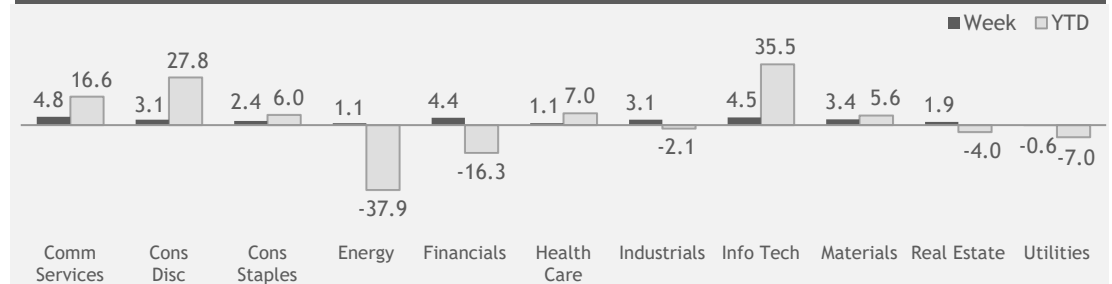
U.S. Style % Total Returns (Russell Indexes)

Week				YTD		
Value	Core	Growth		Value	Core	Growth
2.73	3.28	3.78	Large	-8.59	10.51	29.68
2.75	2.39	1.76	Mid	-9.91	0.13	15.15
2.55	1.69	0.88	Small	-16.32	-4.55	6.61

Data Source: SunTrust IAG, FactSet

Rates (%)	8/28/20	6/30/20	3/31/20	12/31/19	9/30/19
Fed Funds Target	0.25	0.25	0.25	1.75	2.00
Libor, 3-Month	0.24	0.30	1.45	1.90	2.08
T-Bill, 3-Month	0.10	0.15	0.10	1.54	1.82
2-Year Treasury	0.14	0.14	0.19	1.57	1.61
5-Year Treasury	0.26	0.28	0.37	1.69	1.55
10-Year Treasury	0.73	0.65	0.68	1.91	1.67
30-Year Treasury	1.50	1.40	1.31	2.38	2.12
Bloomberg Barclays Aggregate (YTW)	1.18	1.25	1.59	2.31	2.26
Bloomberg Barclays Municipal Bond Blend 1-15 Year	0.97	1.16	1.75	1.53	1.65
BofA Merrill Lynch US High Yield	5.34	6.84	9.24	5.41	5.87
Currencies	8/28/20	6/30/20	3/31/20	12/31/19	9/30/19
Euro (\$/€)	1.19	1.12	1.10	1.12	1.09
Yen (¥/\$)	105.31	107.89	107.96	108.68	108.08
Pound (\$/£)	1.33	1.24	1.24	1.32	1.23
Commodities	8/28/20	6/30/20	3/31/20	12/31/19	9/30/19
Crude Oil (WTI)	42.97	39.27	20.48	61.06	54.07
Gold	1,975	1,801	1,597	1,523	1,473
Volatility	8/28/20	6/30/20	3/31/20	12/31/19	9/30/19
CBOE VIX	22.96	30.43	53.54	13.78	16.24

S&P 500 Sector %Total Returns



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Commonly used acronyms: SAAR = seasonally adjusted annual rate; MoM = month-over-month change; QoQ = quarter-over-quarter change; YoY = Year-over-year change; K = thousands; M = millions.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Barclays Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, US dollar denominated corporate bonds publicly issued in the US domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Barclays Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the US Dollar.

The ICE BofAML Global Government ex US Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in US dollars.

JP Morgan GBI-EM Global Diversified Composite is a comprehensive emerging market debt index that tracks local currency bonds issued by Emerging Market governments.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The FTSE NAREIT All Equity REITs Index is a free-float adjusted market capitalization-weighted index that includes all tax qualified REITs listed on the NYSE, AMEX and NASDAQ.

HFRX Global Hedge Fund Index is defined to be representative of the overall composition of the hedge fund universe.

HFRX Equity Hedge Index is an index that tracks equity hedge strategies that maintain both short and long positions in equity and equity derivative securities.

HFRX Macro Index is an index that tracks private hedge funds where the process is predicated on movements in underlying economic variables.

HFRX Absolute Return Index is an index that is designed to be representative of the overall composition in the hedge fund universe.



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