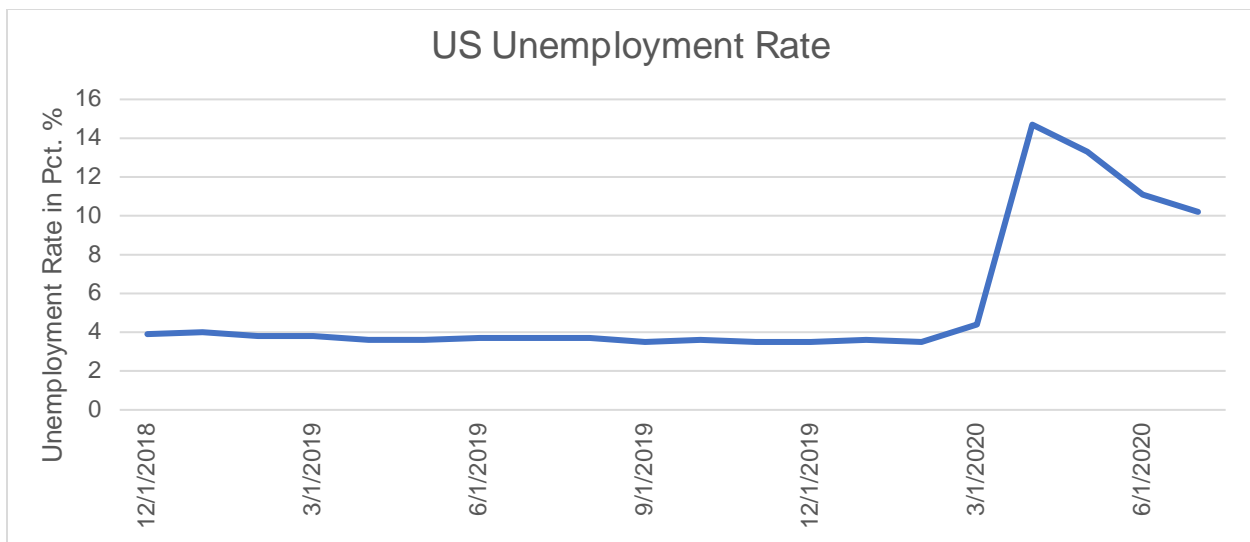


AndCo's Monthly Market Update

August 2020

THE ECONOMY

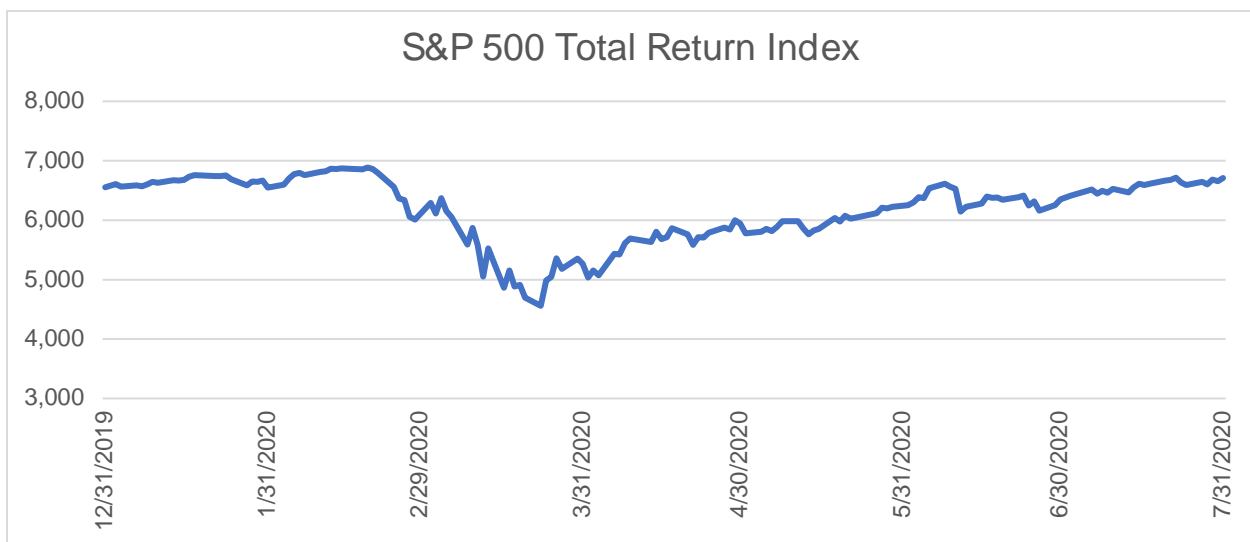
The dog days of summer in Florida are usually the hottest, most humid days, often marked by late-day thunderstorms. Hardly the type of weather you would associate with the green shoots of Spring, but that is exactly what we are seeing. Those green shoots are the economic activity observed sprouting up across the country. Here in Orlando, many of the area's famous tourist attractions have recently re-opened resulting in longer commute times as our notorious traffic returns toward normal. A small price to pay for the businesses the tourists support. Besides these anecdotal observations, a number of July's economic data points confirmed the US economy is in the process of recovering from one of the worst economic reversals in modern history as evidenced by the -32.9% annualized decline in GDP during the second quarter. The Institute for Supply Management's (ISM) Manufacturing Index rose for the second month in a row, rising to 54.2 from 52.6 in June, indicating an expansion of manufacturing conditions.¹ The ISM's Purchasing Managers Index (PMI) also improved to 58.1 in July, up from 57.1 in June.² While the employment component of the index showed some decline, the strong growth in both new and backlogged orders bodes well for future economic growth. The Federal Reserve Bank (the Fed) met during the month and kept the Fed Funds rate unchanged at 0.0% to 0.25% with the caveat that interest rates would likely remain low and accommodative until the end of 2021. Not surprisingly, with interest rates at their lows, the housing market has remained a source of strength in the economy as evidenced by new home sales which rose 13.8% in June.³ As the pace of economic activity has increased, so too has the recovery in the labor market. For the month of July, the US economy added nearly 1.8 million jobs while the unemployment rate fell to 10.2%, down from 11.1% in June.⁴ Unfortunately, continuing jobless claims remain stubbornly high which suggests that many of the jobs that were furloughed during the pandemic may be permanent or at least not likely to return anytime soon. Finally, while there were many positives to take away from the various economic reports during the month, not everything was rosy. The University of Michigan Consumer Sentiment declined to 72.5 in July, down from 73.2 in June. Some of the decline can likely be traced to the persistent uncertainty surrounding the continuation of supplemental unemployment benefits that continue to be negotiated in Washington. Current benefits under the CARES Act expired on July 31st. Nonetheless, the overall trend in US economic activity remains positive as States continue the process of re-opening and recovering from the COVID-19 pandemic.



Source: Bloomberg as of July 31, 2020

EQUITIES

US equity markets continued their torrid pace higher in July, posting strong returns for the fourth consecutive month. During July, the S&P 500 returned roughly 5.6%, while the small cap Russell 2000 returned 2.8%.⁵ Returns within the market remain bifurcated with large cap growth-oriented stocks continuing to lead the way while more cyclical sectors, such as energy and financials, lagged. As evidence, the tech-laden NASDAQ Composite Index returned roughly 6.8% for the month of July, headlined by companies such as Amazon, Apple, Google and Facebook which posted solid earnings during the month.⁶ Looking back toward the market low on March 23rd, the S&P 500 has returned roughly 47.2% while the NASDAQ has gained 56.6%, pushing the year-to-date gains for both indices higher by 2.4% and 19.8%, respectively.⁷ Overseas, emerging market stocks benefited significantly from a rally in Chinese stocks. The MSCI Emerging Market Index gained more than 8.9% in July.⁸ Foreign developed market stocks as measured by the MSCI EAFE Index returned a solid, if somewhat surprisingly low, 2.3% for the month as the US dollar weakened relative to both the euro and yen currencies.⁹



Source: Bloomberg as of July 31, 2020



FIXED INCOME

Similar to stocks, fixed income markets performed very well during the month of July led by longer-dated US Treasury bonds and lower quality corporate bonds. US interest rates, as measured by the US Treasury 10-Year bond, declined to 0.53%, near the all-time low.¹⁰ Yields across the US Treasury curve declined during the month in spite of the likelihood of massive Treasury issuance later this year to fund the next round of fiscal stimulus. Despite the low absolute yield offered to investors here in the US, Treasury bonds remain attractive to foreign investors, particularly those in countries with negative local rates, as evidenced by continued strong foreign purchases. In corporate bonds, lower quality, high yield bond spreads declined by nearly 140 basis points, from plus 625 to 485, reflecting the combination of declining US Treasury rates and increased investors' risk appetite due to the increase in economic activity. As a result, US high yield bond returns moved into positive territory with the Bloomberg Barclays US High Yield Bond Index returning 4.7% for the month.¹¹ Since the low in the market on March 23rd, US high yield bonds have returned an equity-like 25.6%.¹² As high yield bond spreads have fallen back below their long-term average of plus 500 over US Treasury bonds, the likelihood of additional return from capital appreciation due to spread compression has diminished. That said, credit issues, both high yield and investment grade, continue to offer investors attractive yields when compared to government bonds.



Appendix

1. Bloomberg as of August 3rd, 2020
2. Bloomberg as of August 5th, 2020
3. Bloomberg as of July 24th, 2020
4. Bloomberg as of August 6th, 2020
5. Bloomberg as of July 31st, 2020
6. Bloomberg as of July 31st, 2020
7. Morningstar as of July 31st, 2020
8. Morningstar as of July 31st, 2020
9. Morningstar as of July 31st, 2020
10. Morningstar as of July 31st, 2020
11. Bloomberg as of July 31st, 2020
12. Morningstar as of July 31st, 2020

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