MONTHLY
MARKET REVIEW

07 2020

Strategic Investment Group®

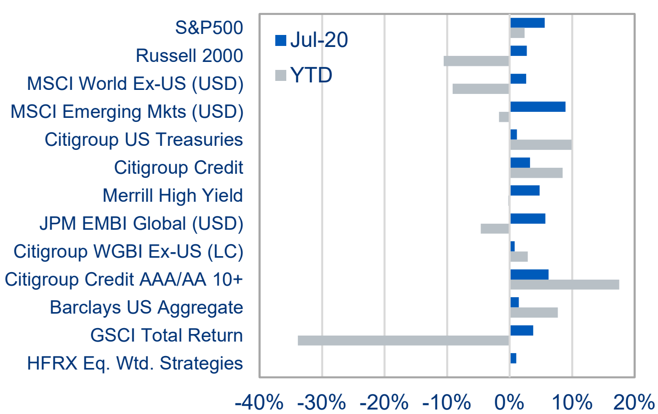
Global Market Review

Macro Summary

Global equity and credit markets surged further ahead in July, with the U.S. and emerging equity markets enjoying particularly strong gains. In contrast, the outlook for the global economy remains tenuous and preliminary data on activity in the second quarter point to a record contraction. Fragile growth prospects, falling inflation, and central bank intervention contributed to declining sovereign bond yields across advanced and emerging markets. U.S. Treasury yields hit record lows. The dollar fell with lower real yields and fears that the U.S. economy will emerge more gradually than others from COVID's clutches. Gold continues to be one of the few shining lights among commodities weighed down by oil's steep decline and the unsettled economic backdrop.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



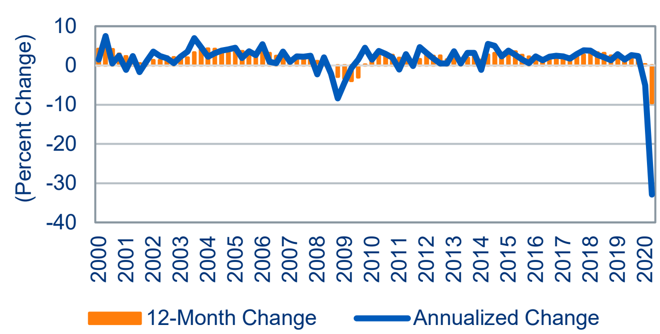
Rebound in global risk assets continues.

Economies Face Grim Future From a Deep Hole

The result of placing the global economy in a medically induced coma was predictably devastating. The U.S. suffered its sharpest downturn since the 1940s in the second quarter, contracting 9.5%, an annualized pace of 32.9% (Exhibit 1). Consumption, investment, and exports all collapsed, while only Federal government spending grew. The euro-area economy plunged 12.1%, its largest ever decline. The Mexican economy (down 17.3%) and a host of other emerging economies also recorded unprecedented contractions. Deep economic declines are typically followed by sharp rebounds. While a favorable bounce is likely for many economies and is indeed evident already in some, none will be well placed to sustain a durable recovery until COVID-19 is tamed. Sadly, that day seems far off. In the case of the U.S., the spread of the virus remains uncontrolled, while other countries that had made progress containing the contagion are now seeing infections flare up again. Despite this highly unsettled backdrop, global equity and credit markets posted strong gains in July.

Exhibit 1. Impact of a Medically Induced Economic Coma

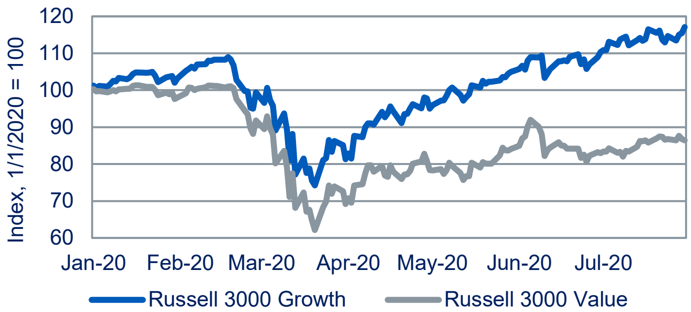
Source: U.S. Bureau of Economic Analysis.



U.S. Equity Market Now in Positive Territory

The S&P 500 rose 5.6% in July, continuing the resurgence of the second quarter. It is up 2.4% so far in 2020. This reversal of fortune remains heavily dependent on a few mega-cap growth stocks in the tech sector. Reflecting this dynamic, growth stocks have strongly outperformed value this year, with the Russell 3000 Growth index up 17.1% compared with the 13.5% decline of its value counterpart (Exhibit 2). Within sectors, consumer discretionary (+21.9%) and technology (+21.6%) are enjoying strong gains, while shares in the energy (-40.5%) and financial (-22.1%) sectors are lagging.

Exhibit 2. Performance of U.S. Value and Growth Indexes
Source: Bloomberg.

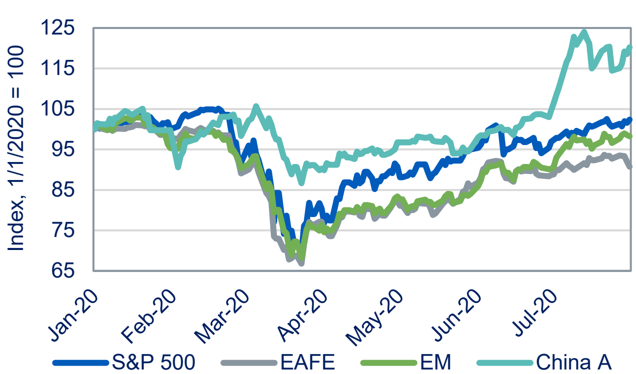


The early stages of the quarterly earnings season (only 26% of the companies in the S&P 500 have reported) suggest a deep fall in earnings of over 42%. While not as bad as the estimated decline of 44%, the outturn would be a record fall if it were sustained as more companies report. The reported earnings of tech giants Apple, Amazon, Facebook, Google, and Microsoft exceeded expectations by a wide margin, and Apple announced a 4:1 stock split to increase retail trading in its shares. Overall valuations are stretched, with the S&P's preliminary forward P/E ratio estimates (22.2) well above the 10-year average (15.3).

Emerging Equities Surge; China Well Up for Year

The rebound across developed and emerging equity markets has been striking, with China A shares recording especially strong gains (20.2%) so far in 2020 (Exhibit 3). Buoyed by nascent signs of economic recovery in Europe, the MSCI World ex-US Index of developed equity markets rose 2.7% in July, extending its 15.3% rebound in the second quarter. Emerging equity markets rose 8.9% in July and are now down only 1.7% in 2020. Latin American (10.7%) and Asian (9.2%) markets posted especially strong gains in July, despite rising caseloads in the former.

Exhibit 3. Global Equity Markets Rebound From Lows
Source: Bloomberg.



Bond Yields Hit Record Low; Credit Spreads Tighten

Large output gaps, unsettled economic prospects, high unemployment, low inflation, and strong central bank intervention are pushing sovereign bond yields to historic lows, despite record global debt levels and the likelihood of further hefty deficit spending to fight the pandemic. U.S. Treasury yields on 2-, 5-, and 10-year securities all touched record lows in July, as did the real yield on 30-year TIPS. Long-dated U.S. Treasuries are up 26.4% in 2020 and remain the best performing asset so far this year. Other safe haven sovereign bonds have also enjoyed strong returns with the WGBI ex-U.S. gaining 6.2% in 2020, largely reflecting the 8.9% gain of European sovereign bond markets, whose yields have plumbed new depths of negativity.

Credit spreads narrowed further in July, especially on high yield bonds, which gained about 5% in July. Investment grade bonds are up 7.9% this year, led by the long dated sector (up 17.5%). Following the large gains in July, high yield bonds returns are flat for the year.

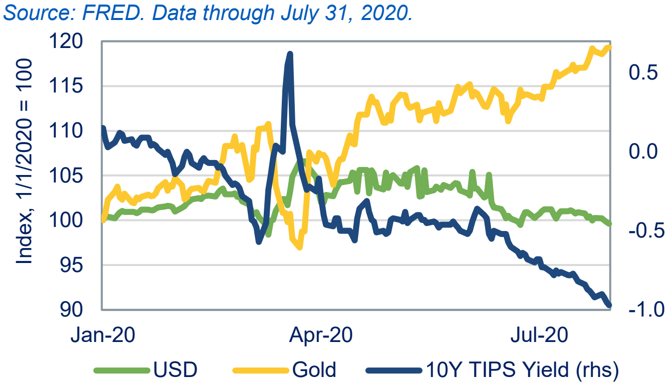
Hedge Funds Rise

The HFRX Equal Weighted Strategies index rose 1.1% in July, and is now little changed for the year. Convertible and relative value strategies lead others so far in 2020, while equity market neutral and equity hedge strategies lag.

Gold Reaches Record High

Negative global real yields on safe haven assets and expectations that the dollar will continue its slide have propelled gold prices to record levels (Exhibit 4). Other commodities also gained in July, with the GSCI gaining 3.8%. Oil prices rose 2.6% in July, but remain down 34% for the year, as is the broader GSCI.

Exhibit 4. Gold, USD, and U.S. TIPS
Source: FRED. Data through July 31, 2020.



Performance of Major Market Indices Through 07-31-2020
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	5.6%	5.6%	2.4%	12.0%	12.0%	11.5%
Russell 2000	2.8%	2.8%	-10.6%	-4.6%	2.7%	5.1%
MSCI World Ex-US (USD)	2.7%	2.7%	-9.1%	-1.7%	0.7%	2.2%
MSCI Emerging Mkts (USD)	8.9%	8.9%	-1.7%	6.5%	2.8%	6.1%
Citigroup US Treasuries	1.1%	1.1%	9.9%	11.8%	5.9%	4.1%
Citigroup Credit	3.3%	3.3%	8.5%	12.3%	7.1%	6.2%
Merrill High Yield	4.8%	4.8%	-0.2%	3.1%	4.2%	5.7%
JPM EMBI Global (USD)	5.7%	8.1%	-4.6%	1.8%	2.3%	4.2%
Citigroup WGBI Ex-US (LC)	0.8%	0.8%	2.9%	2.2%	3.5%	3.0%
Citigroup Credit AAA/AA 10+	6.2%	6.2%	17.5%	23.2%	12.3%	10.3%
Barclays US Aggregate	1.5%	1.5%	7.7%	10.1%	5.7%	4.5%
GSCI Total Return	3.8%	3.8%	-33.9%	-31.2%	-8.9%	-9.2%
HFRX Eq. Wtd. Strategies	1.1%	1.1%	-0.1%	2.4%	0.4%	1.0%