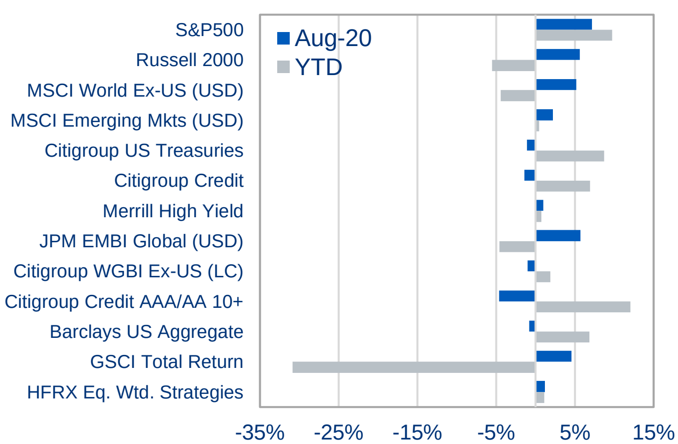
Global Market Review

Macro Summary

Following a rapid appreciation in July, the pace of U.S. stock price increases accelerated in August. Developed non-U.S. equity markets also rose at a fast clip in August, while emerging equity markets increased more modestly. Government bonds and investment-grade credit instruments declined, especially those with long maturities. Indicators of economic activity sent mixed signals, rebounding strongly while remaining well below pre-pandemic highs. The resilience of the rebound remained uncertain, with the possibility of a second wave of contagion representing a worrisome risk. The U.S. dollar fell against most major currencies, while gold reached record highs. Oil and other commodities also enjoyed strong gains.

Performance of Major Market Indices

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



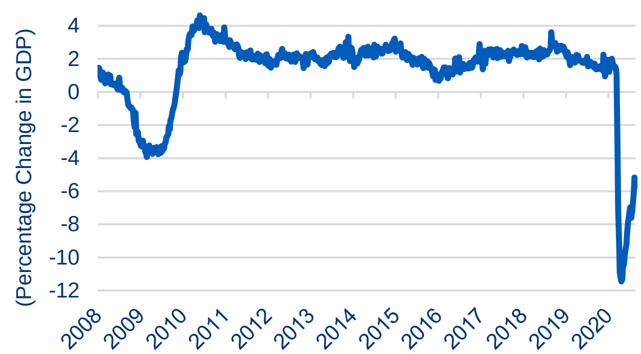
Rebound in global equities accelerates.

Is the Cup Half Full or Half Empty?

The wide swings in economic indicators from the depths of April to the strong rebound through July and early August have confounded forecasters, pushing Citigroup's Index of Economic Surprises to record positive levels, and raised questions about whether a resilient economic recovery is underway. Most indicators of economic activity have followed the pattern of the Fed's broad index of economic conditions, up sharply from lockdown lows, but still well below pre-pandemic levels (Exhibit 1). Whether the positive economic surprises can continue is subject to doubt. Consumer confidence fell to six-year lows in August, pandemic unemployment benefits and the moratorium on evictions have expired, and bankruptcies, especially among retailers and restaurants, are increasing rapidly. Moreover, the possibility of a second wave of contagion remains a wild card. The Fed's broad index of economic conditions projects a sharp GDP contraction in 2020.

Exhibit 1. After Wide Swings, Highly Uncertain Prospects

Source: St. Louis Federal Reserve. Data through August 27.

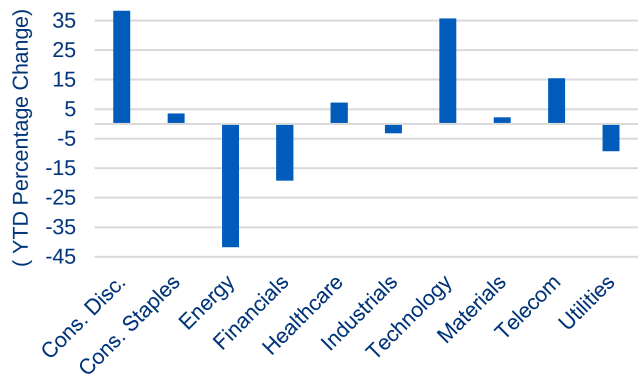


U.S. Stocks Surge

The S&P 500 and the NASDAQ both set record highs in August as the U.S. stock market staged its strongest rally in history, ending the shortest bear market of all time. The S&P 500 index rose 7.2% in August, compounding its 5.6% gain in July. It is up 9.7% so far this year and more than 50% above its March lows. Market action remains lopsided, with a few mega-cap tech stocks setting the pace. Expectations of robust earnings growth from scale economies and market dominance are the main drivers of the boom. With the U.S. market representing nearly 60% of global equity market capitalization, the U.S. tech boom is a global phenomenon that is echoed by a similar boom in Chinese tech stocks. The dominance of the tech sector has driven the strong outperformance of growth stocks (up 28.9%) over value (down 9.9%) and the widening dispersion across sector returns so far this year (Exhibit 2).

Exhibit 2. Sectoral Dispersion Reflects Tech Dominance

Source: Bloomberg.



Non-U.S. Equities Also Extend Gains

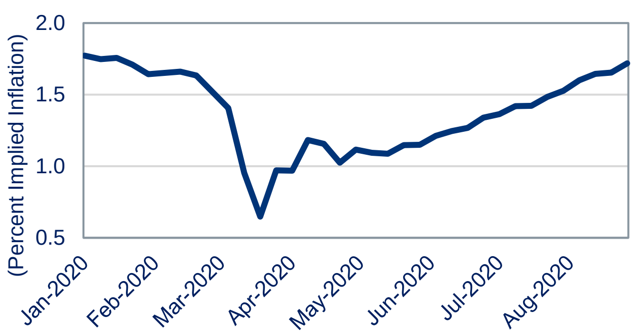
Non-U.S. equity markets have also enjoyed a strong rebound from the lows reached in March and April. Unlike the U.S., however, developed non-U.S. markets remain in negative territory so far in 2020, while emerging markets have just turned positive. The MSCI World ex-U.S. index of developed stocks gained 5.2% in August, but remains down 4.4% for the year. Emerging market equities enjoyed more modest gains in August (2.2%), but are now marginally up (0.4%) so far in 2020. The ChinaA-share market remains the world's best performing equity market in 2020, gaining 5.6% in August to bring its returns for the year to 25.2%.

Dovish Fed, Higher Yields and Inflation Expectations

With interest rates at the zero lower bound and no appetite for negative interest rates, the Fed formalized a dovish shift in its dual mandate. Notably, the new approach adopts an average inflation target with the aim of creating a more symmetrical range, including periodic overshoots, around the previous point target of 2%. Global yield curves steepened and U.S. implied inflation expectations increased following the announcement, while remaining below the Fed's 2% target (Exhibit 3).

Exhibit 3. Inflation Expectations Rise

Source: Bloomberg.



Long-dated U.S. Treasuries, which had been among the best performing asset this year through July, fell 4.3% in August, but remain up over 20% so far in 2020. Non-U.S. advanced economy sovereign bonds declined fractionally in August, but are still up 6.1% this year. Credit markets, especially at the long end of the maturity spectrum, also declined in August with long-dated U.S. investment grade bonds losing 4.6%, bringing their return this year to 12.1%. The EMBI index of emerging market bonds, in contrast, managed a small gain in August and is up 2.1% in 2020.

Hedge Funds Rise

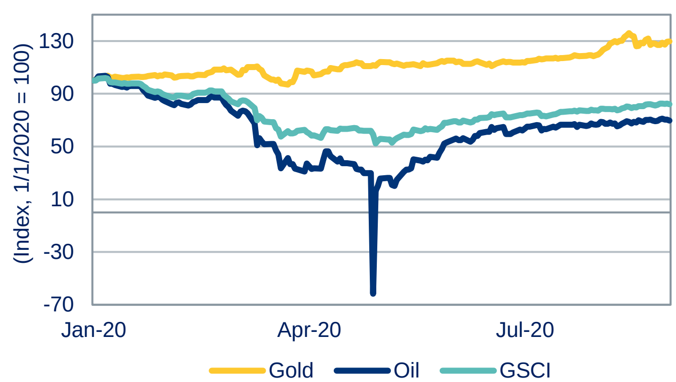
The HFRX Equal Weighted Strategies index rose 1.3% in July, and is up 1.2% for the year. Convertible arbitrage, relative value, and event driven strategies lead others so far in 2020, while equity market neutral and equity hedge strategies lag.

Gold Sets Record High

Gold reached a record high in August and is up nearly 30% so far in 2020. Gold's ascendancy reflects geopolitical tensions, fears that massive stimulus may spark inflation, low real yields, and a weak dollar. Black gold also rose sharply in August, rising 5.8%, but remains down about 30% in 2020.

Exhibit 4. Gold, Black Gold, and Commodities

Source: Bloomberg.



Performance of Major Market Indices through 08-31-2020

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	7.2%	13.2%	9.7%	21.9%	14.5%	14.5%
Russell 2000	5.6%	8.6%	-5.5%	6.0%	5.0%	7.7%
MSCI World Ex-US (USD)	5.2%	8.0%	-4.4%	6.0%	2.4%	4.8%
MSCI Emerging Mkts (USD)	2.2%	11.3%	0.4%	14.5%	2.8%	8.7%
Citigroup US Treasuries	-1.1%	0.0%	8.7%	6.9%	5.1%	3.9%
Citigroup Credit	-1.4%	1.8%	6.9%	7.2%	6.3%	6.0%
Merrill High Yield	1.0%	5.8%	0.8%	3.7%	4.5%	6.3%
JPM EMBI Global (USD)	5.7%	8.1%	-4.6%	1.8%	2.3%	4.2%
Citigroup WGBI Ex-US (LC)	-1.0%	-0.2%	1.9%	-1.2%	2.8%	2.9%
Citigroup Credit AAA/AA 10+	-4.6%	1.3%	12.1%	9.0%	10.0%	9.4%
Barclays US Aggregate	-0.8%	0.7%	6.9%	6.5%	5.1%	4.3%
GSCI Total Return	4.6%	8.6%	-30.9%	-23.8%	-7.3%	-8.4%
HFRX Eq. Wtd. Strategies	1.2%	2.3%	1.1%	3.5%	0.8%	1.5%