

**THE
WEEK IN
REVIEW**

US Financial Markets - The Week in Review

10 August 2020

Economic and political backdrop

Stocks drifted higher through much of last week, although the catalysts for the move were perhaps harder to identify than usual, and trading was subdued relative to recent months. The week's busy economic calendar appeared to play some part in supporting sentiment. Manufacturing signals remained encouraging, with July factory orders rising more than expected and the Institute for Supply Management's gauge of factory activity surprising on the upside, reaching its highest level since early 2019. The Institute's services sector gauge also came in better than expected.

Labour market data seemed to further encourage investors. Adaunting 1.2 million Americans filed weekly jobless claims, but this broke a string of two weekly increases and marked the lowest level since the onslaught of the pandemic and business closings in early March. On Wednesday, ADP announced a much smaller-than-expected rise in its tally of July private payrolls, but the Labour Department's official July count surprised on the upside when it was released Friday – employers added 1.76 million jobs in the month, fostering a further decline in the unemployment rate, from 11.1% to 10.2%. The underlying data were perhaps less encouraging, with much of the payroll increase due to the timing of a seasonal adjustment to educational hiring. The labour force participation rate also dropped slightly.

With extended unemployment benefits having expired the previous Friday, investors also kept a close eye during the week on progress – or the lack thereof – in negotiations on a new fiscal stimulus package. There was a brief equity-market sell-off on Tuesday afternoon following a Republican senator's estimation that stimulus talks might take another two weeks. Optimism seemed to rebound on Wednesday, however, after 16 Republican senators announced support for a new USD 25 billion in aid for the US airline industry. On Thursday, markets seemed to get another boost after lawmakers pledged to keep working on a package, while President Trump tweeted he had instructed his staff to continue assembling an executive order related to a payroll tax cut, eviction protections, unemployment extensions and student loan repayment options.

Equity markets

The S&P 500 recorded a solid gain of 2.5% (5.2% YTD), lifted to within roughly 1.2% of its February record peak. The technology-heavy Nasdaq Composite reached new highs. Small caps outperformed by a wide margin, helping them recover some of their lost ground for the year to date – Russell 2000 returned 6.0% (-4.9% YTD), Russell 1000 Growth 2.1% (21.1% YTD) and Russell 1000 Value 2.7% (-10.2% YTD). Industrials shares benefited from hopes for new aid to airlines, while healthcare stocks lagged. It was the last major week of the earnings season, with 132 S&P 500 companies scheduled to report second-quarter results, according to Refinitiv.

Fixed income markets

The US 10-year Treasury yield touched a new five-month low on Thursday before increasing on Friday following the jobs report from the Labour Department, leaving it modestly higher for the week at 0.57%, up from 0.53% at the end of last week. Across the Atlantic, German 10-year bund yield was trading at -0.51% on Friday, up from -0.53% a week ago. In the UK, 10-year gilt yield ended the week at 0.14%, up from 0.10%.

The investment-grade corporate bond market saw steady new issuance, and most new deals were met with solid demand. Some encouraging economic data appeared to bolster market sentiment and tighten credit spreads, and the volume of new deals was at the high end of expectations.

Positive flows provided technical support for the high yield market by helping offset new issuance that was surprisingly strong for August. In issuer-specific news, Lord & Taylor became the latest major retailer to file for Chapter 11 bankruptcy protection – JCPenney, J. Crew and Neiman Marcus have also filed this year – as the retail segment continues to be severely impacted by the pandemic.

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