

**THE
WEEK IN
REVIEW**

US Financial Markets - The Week in Review

24 August 2020

Economic and political backdrop

Economic data seemed to be front and centre in the market for much of last week. Stocks got off to a good start after reports showing healthy increases in both housing starts and permits in July. The National Association of Home Builders' measure of builder confidence reached its highest point on record, while existing home sales in July rose much more than expected, hitting their best level since December 2006. IHS Markit's composite purchasing managers' index (PMI) of overall business activity indicated the fastest pace of expansion since February 2019, but two regional manufacturing surveys disappointed on the downside. The weekly unemployment claims report was another dark spot, with the number of Americans filing initial claims rising unexpectedly to 1.1 million. The number of unemployed filing continuing claims fell more than expected, however, hitting its lowest number (14.8 million) since early April.

Encouraging developments in efforts to contain the coronavirus and reopen the economy may have also supported sentiment. The national daily number of new cases continued to fall as hard-hit areas in the South and the Sun Belt registered significant declines. Emergency regulatory approval for new saliva-based tests may have also supported containment hopes, and data suggested that Americans were growing more confident in going out in public. According to Reuters, OpenTable's tally of restaurant reservations reached its highest level since mid-March, while credit and debit card purchases by Chase cardholders also hit a peak since the start of the pandemic. Worries remained that a return of students to schools and universities would spark another resurgence in the virus, however.

The Wednesday release of the Federal Reserve's minutes from its July policy meeting appeared to weigh on sentiment somewhat, with some investors perceiving a more downbeat tone on the economy than expected, along with less forceful assurances

of further monetary stimulus. Concerns also remained over the lack of progress on a new fiscal stimulus programme. A Trump administration official said there may be a bipartisan path to a pared-down USD 500 billion relief bill, however, and Senate Majority Leader Mitch McConnell said a bill to support postal services may provide a negotiating window for broader stimulus.

Equity markets

In the US, the S&P 500 recorded a gain of 0.8% (6.8% YTD). The major indexes ended mixed in what was characterised as a week of generally light summer trading – at least in the context of the market's recent volatility. Nevertheless, the week was notable for the S&P 500 hitting record intraday and closing highs on Tuesday. By common definitions, this marked the fastest recovery from a bear market in history – according to Barron's and Dow Jones Market Data, the 126 trading days it took for the S&P 500 to reclaim its February peak was over 10 times as fast as the index's average historical rebound (1,542 trading days).

The week's performance was highly uneven, however, with growth stocks forcefully reasserting their dominance over value shares and large-caps handily outperforming small-caps – Russell 1000 Growth returned 3.0% (25.3% YTD), Russell 1000 Value -1.4% (-10.7% YTD) and Russell 2000 -1.6% (-5.9% YTD). Communication services shares were among the best performers. Technology stocks were also strong, boosted by gains in chipmakers. Apple became the first US publicly traded company with a market capitalisation over USD 2 trillion. Meanwhile, energy shares recorded declines as OPEC and other major hydrocarbon-producing nations predicted a slow recovery in global oil demand. The price of a barrel of Brent ended the week at USD 44.4. Financials, another prominent value sector, underperformed after Warren Buffett's Berkshire Hathaway revealed a significant reduction in its bank holdings.

Fixed income markets

Treasury yields drifted modestly lower through most of the week as the disappointing jobless claims and manufacturing data appeared to add to concerns that the US economic recovery was slowing. The 10-year Treasury yield ended the week at 0.63%, down from 0.71% at the end of the previous week.

Investment-grade corporate bonds underperformed as the Fed's minutes seemed to contribute to risk-off sentiment. Activity in the high yield market was somewhat subdued, as the seasonal slowdown began. The primary calendar remained active, however, and August's new issuance volume surpassed July's monthly total.