## EXM CAPITAL

7 September 2020





Economic and political backdrop

A light week for economic data was highlighted by the Labour Department's monthly non-farm payroll report, showing that employers added 1.4 million jobs in August, a number in line with consensus estimates. Temporary workers who were hired to complete this year's census made up 238,000 of the total but employment gains were also solid in retail, professional and business services, and the leisure and hospitality sectors. The unemployment rate, which is based on a separate survey, fell more than expected, dropping to 8.4% in August from 10.2% in July. About 48% of the jobs lost during March and April have been recovered in the past four months. Initial unemployment claims fell from the prior week but, at a seasonally adjusted 881,000, remained elevated as many employers are still struggling to recover from the economic damage caused by the pandemic.

**Equity markets** 

The S&P 500 finished the week down 2.3% (7.8% YTD), as investors took profits after an August rally that left the major benchmarks at or near all-time highs. The technology-heavy Nasdaq Composite suffered the largest losses, declining 3.3%, but has still produced significant gains on a year-to-date basis (27.4%). While the S&P 500 also remained positive for the year, the more narrowly focused Dow Jones Industrial Average slipped back into negative territory for 2020. Value stocks lost ground but held up better than their growth counterparts. Russell 1000 Growth returned -3.4% (25.6% YTD), Russell 1000 Value -1.2% (-9.4% YTD) and Russell 2000 -2.7% (-6.9% YTD).

Although the S&P 500 finished last Monday with modest losses, the benchmark still returned more than 7% in August, its best month since April. The market climbed on Tuesday and Wednesday, driven by some of the tech names that have propelled the recovery from

the late-March lows. Apple continued to attract investor demand after a four-for-one stock split, and shares of video-conferencing company Zoom Video Communications surged after a strong earnings report.

However, sentiment quickly shifted on Thursday as the S&P 500 fell 3.5%, led lower by tech names. It was hard to identify a driver for the downturn, but investors may have simply concluded that some of the large tech names had become overvalued and that it was time to take profits. Some of the volatility experienced during the week may have come from the increasing use of options by investors who wanted to take advantage of potential gains in the market.

## Fixed income markets

The sell-off in equities, month-end portfolio rebalancing and Federal Reserve debt purchases drove the yield of the 10-year US Treasury yield lower early in the week. However, demand for Treasuries waned after the release of Friday's employment report, and the 10-year yield finished little changed for the week at 0.72%.

New issuance in both the US investment-grade and high yield corporate bond markets was subdued ahead of the Labour Day weekend. Solid manufacturing data in the US, Europe and China appeared to boost investor sentiment in the investment-grade market, and high yield bonds held up relatively well in light trading despite the volatility in the equity market.