Monthly Market Commentary – August 2020

Market Performance	June	YTD
S&P 500	5.64%	2.38%
Dow Jones Industrial Average	2.51%	-6.14%
Barclays US Aggregate Bond Composite	1.49%	7.43%

Annual US GDP Growth Forecast	Rate	Month/ Month Change
2020	-5.50%	-0.10%
2021	3.90%	-0.20%

Despite a resurgence of coronavirus cases and tighter restrictions in some regions, US stocks continued their rally in July with the S&P 500 moving into positive territory for the year. Q2 earnings have exceeded lowered expectations as businesses manage the ongoing impact of COVID-19. Heading into the fall, the potential reopening of schools will play a critical role in the economy as full productivity and growth are dependent upon fully functioning schools and child-care.

The Federal Reserve continues to support the markets with a variety of stimulus programs and interest rate policy near zero. At their July meeting, the Fed held steady on rates, announcing that economic activity has increased but remains highly correlated to the trajectory of the pandemic. US GDP fell a record 32.9%* annualized in Q2, but analysts expect a sharp rebound in Q3 and Q4. It appears that markets are pricing in the rebound and could see lower stock prices if growth forecasts fail to materialize. In positive news, the housing market has been a source of strength with existing home sales +20.7%* and new home sales +13.8%* in June. Mortgage rates continue to fall, setting record lows and providing opportunity for first time buyers and existing homeowners. Retail sales also rose 7.5%* in June as consumers weathered the economic storm with the help of government assistance. Stimulus programs that have supported unemployed workers and small businesses will be expiring in the coming weeks. Congressional leaders are in negotiations on whether to extend programs, reduce or replace them with new programs. They hope this will bridge the gap until economic activity can return to normal.

The bond market also generated strong returns for the month as investors sought yield in an uncertain environment. Bond yields have fallen near all-time lows with no catalyst for higher rates in the near term. The 10-year US Treasury fell 11 basis points in July to close at 0.55%, while the corresponding 10-year municipal dropped 25 basis points closing at 0.67%. Heavy short-term municipal supply, coupled with strong demand throughout the curve is likely to produce strong relative performance in longer municipals. In the current environment, we are staying disciplined and continue to focus on managing portfolios within target allocations and risk parameters.