MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / JULY 2020

July Summary

Most risky assets continued their ascent in July after the strong second-quarter gains. Global equities rose as the world continues to battle with the ubiquitous COVID-19. Record levels of new confirmed cases are being reported in some parts of the world, while the United States, unfortunately, leads this category that no nation wants to lead. At the same time cases are increasing, encouraging news on the vaccine front continues to occupy the headlines. More than 150 vaccines are in development around the world, and a select few are already in the critical phase three of clinical human trials. Nobody knows for certain when an approved vaccine will be developed for worldwide distribution, but the level of attention it continues to receive from researchers, doctors, health care practitioners and the like is a historic effort.

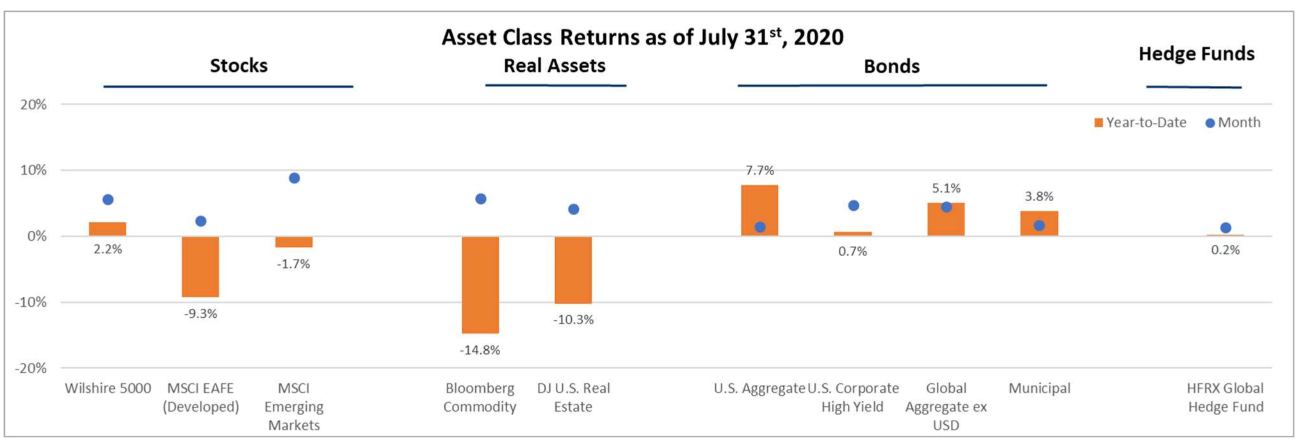
There are many beliefs and hypotheses on how the global economy can successfully rebound from the catastrophic damage caused to countries impacted by the COVID-19-induced economic shutdown. However, many have suggested that there exists a vast disconnect between the economy (or consumers) and stock markets given where valuations and corporate fundamentals stand today. Despite the highest unemployment rate ever recorded in April, and a prevailing high-level north of 10% through July, some U.S. large-cap (i.e. S&P 500 Index) and technology-focused (i.e. Nasdaq Composite Index) indices have already reached or are near their highest levels ever. Throughout past market cycles, consumer sentiment levels and the S&P 500 have typically displayed some degree of positive correlation, but that has vanished during the pandemic. Many reasons for this have been suggested, but the two most likely include the dominance of the information technology sector within the S&P 500 and the enormous amount of fiscal and monetary support the Federal Reserve has interjected to buoy the markets. A few large companies in the technology space represented by the acronym FAANG+MSFT, have grown rapidly and their aggregate market capitalization dominates the rest of the index constituents. Separately, the Fed stepped in to offset the blow felt by some companies and purchased individual corporate bonds along with some corporate bond ETFs, the first time in history these two actions occurred.

The second-quarter U.S. GDP contracted by an annualized rate of 32.9%, more than three times greater than the previous record contraction of 10% in 1958. As a comparison during the fourth quarter of 2008 amid the Global Financial Crisis, U.S. GDP fell by 8.4%. Elsewhere around the world, the impact was also profound. Italy's second-quarter GDP fell by 12.4% and Spain's by 18.5%, both annualized rates. In contrast, China's GDP sharply rebounded in Q2 as the country used supportive governmental policies to mitigate the pandemic's impacts on economic activity. Emerging markets overall strongly rose in USD terms as COVID-19 cases retreated in some countries and the dollar plummeted relative to other currencies. The dollar's decline has been spurred by increasing levels of new cases in the U.S. which threaten to curtail the economic rebound.

All sectors of the S&P 500 rose besides energy which fell 5.1%. In particular, the travel and tourism industry's demand level lagged, as the brunt of the impact from COVID-19 was felt. Treasury yields declined for the month and show little signs of rising in the near-term. In conjunction with the Fed's support of corporate bonds mentioned above, this led to strong returns across all fixed income sectors for the month.

Looking ahead there are many uncertainties related to COVID-19, vaccine development efforts, and future global economic growth. Because of these risks, Conway Wealth Group advocates that investing in an appropriately diversified portfolio is optimal, after liquidity needs are met.

Market Data



Morningstar®, bond indices from Bloomberg Barclays

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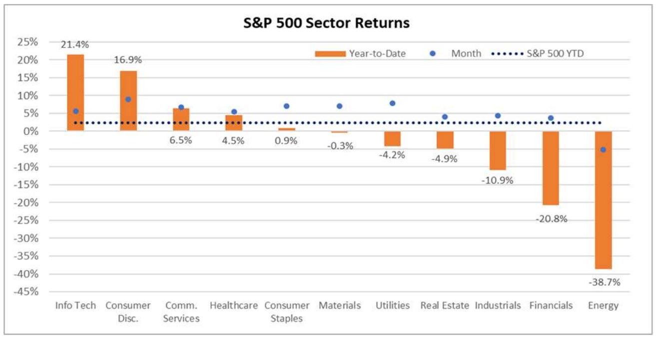
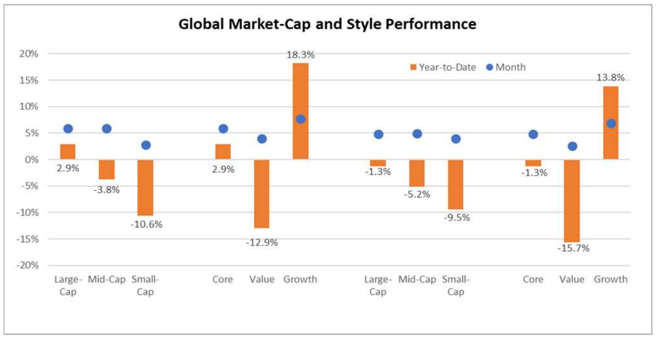
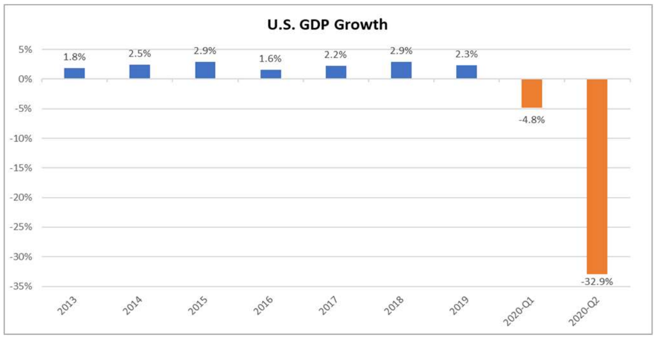


Bloomberg

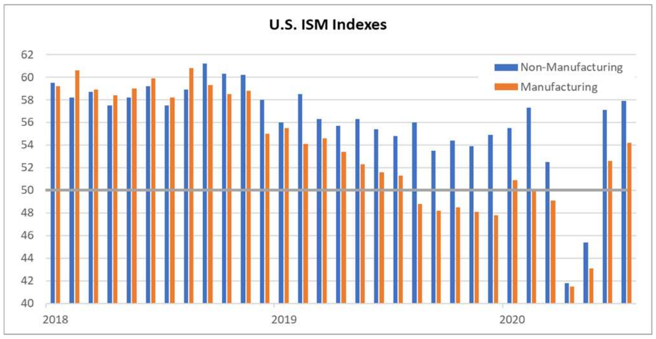


Bloomberg; U.S. indices from Russell and World indices from MSCI

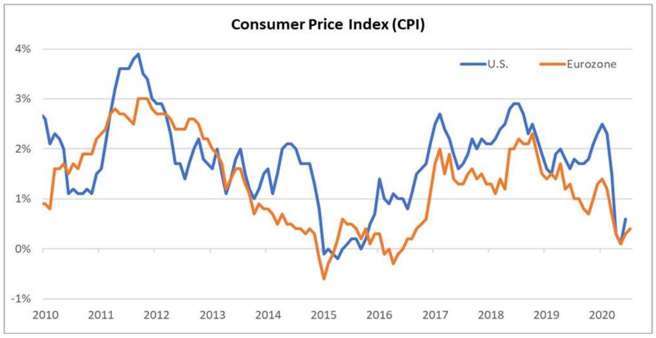
Economic Data



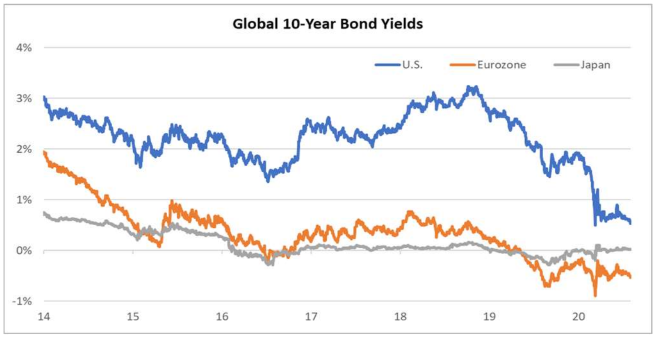
U.S. Department of Commerce



Institute for Supply Management



U.S. Bureau of Labor Statistics



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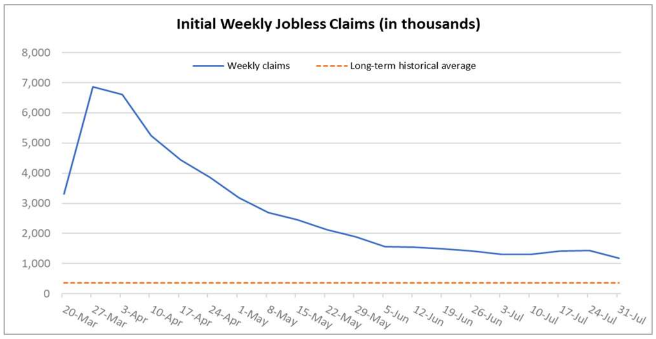

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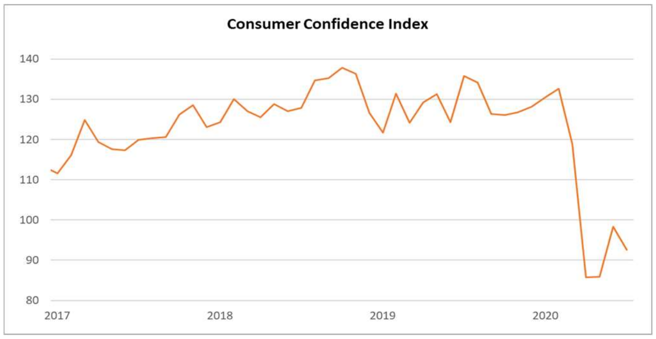
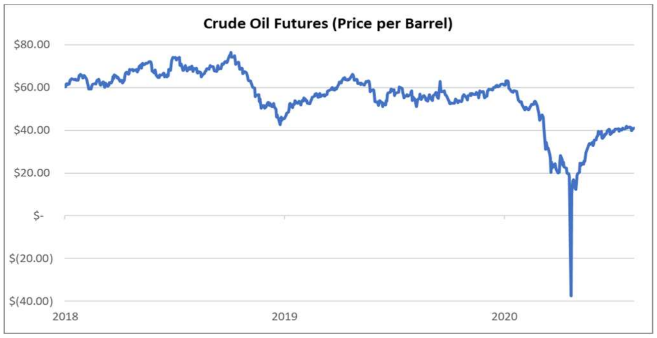


Conference Board

Economic Data



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