

Quarterly Market Outlook

July 2020

The Global Economy Reopens

During the second quarter, the global economy began a long road to recovery as countries around the world eased the strict lockdowns instituted in response to the COVID-19 pandemic. US retail sales jumped by over 20% in May and June (the biggest two-month rise on record), retracing the historic drop in March and April as consumers benefitted from a strong rebound in job growth and generous unemployment benefits.¹

Government Stimulus Reaches Unprecedented Levels

Governments around the world have signaled a willingness to do whatever it takes to support their economies, as global central bank balance sheets have increased by over \$5 trillion in just the past 4 months. The largest contributor was the US Federal Reserve which has expanded its balance sheet by over \$3 trillion this year, roughly equivalent to the increase over the prior 12 years.² Central bank asset purchases have served to ease financial conditions (through purchases of Treasury and corporate bonds) and helped to finance direct transfers to individuals (through unemployment benefits) and businesses (through the Paycheck Protection Program).

Historic Market Rally

Cheered by the record levels of stimulus and improving economic activity, equity and credit markets staged a breathtaking recovery in the second quarter. After falling over 30% in February/March, the S&P 500 experienced its strongest 50-day rally in history, appreciating 37.7% from its March 23rd lows.³ Remarkably, as of July 24, 2020, the S&P 500 is now positive on the year.⁴

Massive Outperformance of Growth vs. Value

Underlying the market strength is a massive performance disparity between growth and value equities, with the Russell 1000 Growth Index outperforming Russell 1000 Value by 26% YTD, the largest 6-month outperformance since the Tech Bubble in 1999.⁵ Many of the growth names are cloud-based technology companies that have gained market share in the COVID-oriented economy, while many value names are in sectors such as energy, retail, and travel which have been most directly disrupted by COVID.

¹ Source: Advance Retail Sales, U.S. Census Bureau.

² Source: Havar Analytics.

³ Source: LPL Financial. Bloomberg, S&P 500 Index, 3/23/20 – 6/02/20.

⁴ Source: Bloomberg, S&P 500 Index (+0.61%) from 12/31/19 – 7/24/20.

⁵ Source: Bloomberg, Russell 1000 Growth Index (+9.8%), Russell 1000 Value Index (-16.3%), 12/31/19 – 6/30/20.

Gold Reaches an All-Time High

We view gold as a currency, a role it has played for thousands of years. In a world where nearly every central bank is dramatically increasing the supply of paper money, gold, which has a finite supply, may stand to benefit. Additionally, the 0% yield on gold is now higher than the yield on many currencies like the euro, Japanese yen and Swiss franc. Accordingly, gold is up over 17% YTD and just reached an all-time high in July.⁶ With Modern Monetary Theory (i.e., print and spend policies) now accepted as central bank doctrine, we believe gold should be a significant part of every investor's portfolio.

COVID-19 is Likely to Remain a Drag on Growth

Confirmed global cases of COVID-19 have now exceeded 16 million with nearly 650 thousand deaths.⁷ Several Asian and European countries have been successful at significantly reducing virus spread through a range of efforts including wearing masks, contact tracing and targeted quarantines, but a number of prominent countries – most notably the US, Brazil, Mexico, India and Russia – are seeing a rapid escalation of cases. Given the challenges of containing the virus and the lack of effective treatments/vaccines, we expect the pandemic to remain a significant drag on growth, particularly in countries that are experiencing large outbreaks.

US Presidential Election

Joe Biden has officially been named the Democratic nominee for the presidency. With many Americans disapproving of President Trump's handling of the virus and the Black Lives Matter protests, Mr. Biden is now leading by a healthy margin in both the polls and betting markets.⁸ It is still early in the election cycle and much can change over the coming months. We expect the polarization of American politics to be on full display and would not be surprised to see contested results given the challenges of running an election during a pandemic (candidates have already made unsubstantiated claims about fraudulent mail-in ballots).

Wide Range of Potential Outcomes

This unique confluence of forces – an economic collapse of unknown duration, unprecedented government stimulus, and increasing political uncertainty – is driving an extraordinarily wide range of potential outcomes. We believe that holding a well-diversified portfolio is critical to meeting investment objectives against this highly uncertain backdrop.

⁶ Source: Bloomberg, change in spot price of gold (BB: XAU), +17.4% from 12/31/19 through 6/30/20.

⁷ Source: WorldoMeter, 7/25/20, <https://www.worldometers.info/coronavirus/>.

⁸ Source: www.realclearpolitics.com, 7/24/20.

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