



Investment Update for the week of June 1st, 2020

- **Global Markets:** Equity markets continue to march higher, erasing losses from earlier in the year
 - **U.S. Equities** had another solid week of positive returns, bringing the year-to-date loss for the S&P 500 Index to just 5%. This is a far cry from the more than 30% year-to-date decline the same index reached in mid- to late-March. While many economic barometers remain disappointing, investors appear optimistic that the economy will continue gradually reopening across the country. More of a risk-on stance also contributed to the outperformance of value over growth (as measured by the respective Russell 1000 indices). Within the S&P 500 Index, more cyclical sectors – such as financials (+6.6%) and industrials (+6.1%) – were the top weekly performers. Bottom performers included the communication services (+0.6%) and energy (+0.9%) sectors. The communication services sector priced in potentially higher regulation of social media platforms while the energy sector continued to suffer on reports of higher than anticipated inventories.
 - **International Equities** performed well, generally exceeding U.S. counterparts. The developed, international, MSCI EAFE Index, was a standout performer, rising more than 5% over the week. Japanese equities shot higher based on optimism around reopening and extensive stimulus. Emerging market equities also fared well but were somewhat weighed down by heightened tension as China furthered its grip over Hong Kong.
 - **Credit Markets** were mostly higher, benefitting from tighter spreads as yields were little changed. The municipal market continued its recent rally and outperformed treasuries, benefitting from strong inflows. In fact, municipal bond funds experienced their largest weekly inflows last week since February. The corporate investment grade market also performed well, as steady new deal activity was met with healthy demand. The high yield segment realized the highest performance amongst the group, as spreads ground lower amidst strong inflows. In particular, fallen angles, or issuers that have recently lost their investment grade status, performed well benefitting from strong interest.
- **Economic Data/News:** ‘Less bad’ is the new good as some economic data surprises to the ‘not as bleak’ side
 - **U.S.:** Recent economic data came in less bad than expected in several areas, providing a boost to sentiment. For instance, April’s durable goods orders outside of transportation fell 7.4% - about half as bad as anticipated. Similarly, another 2.1 million Americans filed for unemployment, giving investors hope as the number continued to trend lower. The housing market also received a boost, as sales of new homes rose at a healthy pace as real estate market activity restarted. On the negative end, rising tensions between the U.S. and China gave some investors concern that the trade war was reigniting.
 - **International:** In Europe, the European Commission unveiled a new EUR 750 billion recovery plan. The plan would be funded by the market and distributed in the form of grants and loans. Despite various stimulus measures, ECB President Christine Lagarde warned of a significant contraction in the European economy in 2020 of between 8% and 12%. The ECB appears willing to further step up action should the economic landscape warrant it. In Japan, investors expressed enthusiasm for the lifting of a state of emergency for the remaining regions on lockdown. The Japanese government also announced a second

round of stimulus, bringing total supplementary additions to the budget to a staggering 40% of annual GDP. In China, the mainland's efforts to further extend control over Hong Kong captured world headlines. China's efforts to exert additional control over the territory has been met with strong local resistance and has the potential to further damage their economy.

- **Odds and Ends: SpaceX capsule syncs with the ISS, Eli Lilly tests a new blood based Covid therapy, and Americans start driving more**
 - In some much-needed good news, **SpaceX** successfully launched their Falcon 9 rocket and docked a capsule with the International Space Station (ISS) with two astronauts on board over the weekend. The launch represents a new era of American space travel in the form of a public/private sector partnership. The mission was also the first time that NASA launched its own astronauts into space in nearly a decade since the end of the space shuttle program. For many, the launch re-ignited enthusiasm around domestic space travel and optimism for the future.
 - Pharma-giant, **Eli Lilly** started testing a new experimental drug focused on leveraging blood derived from early survivors of Covid-19. The drug seeks to take advantage of the molecular defenses developed by recovered patients. The company hopes to use the drug to treat hospitalized patients initially and then potentially use the drug on the high-risk population. Offering the medication to the high-risk community would enable a way of curbing the pandemic until a full vaccine is developed and widely distributed.
 - Americans are starting to take advantage of gas prices not seen in years by driving more as travel bans are removed. Driving might be the preferred form of transportation this summer, as people are less likely to get on plane for longer-distance trips. For once, some traffic and congestion are positive indications that consumers are starting to get out and spend - fueling the start of an economic recovery. Optimism around the recovery has also boosted the price of oil from prior lows, providing some support for the battered down energy sector.
- **Resource of the week:** Bundling probably isn't something that most people give a ton of thought, yet the underlying economics and driving forces are fascinating. In this episode of *Invest Like the Best*, Shishir Mehrotra discusses the preconceived notions of the bundle and how its one of the more powerful ideas in business. It also often represents good value for the consumer, even when we feel like we're getting the short end of the stick. If you're curious about how bundling can actually contribute to a fascinating conversation, give this podcast a listen. Please feel free to submit suggested resources to smelnick@sfr1.com.
 - **Direct Link:**
<http://investorfieldguide.com/shishir-mehrotra-the-art-and-science-of-the-bundle-invest-like-the-best-ep-175/>
 - **Spotify link:**
<https://open.spotify.com/episode/7zj5hXzYs6rDAzeARFW2J4?si=wxvDuXqRfOnRBHwONQrZA>

Sources: The WSJ, T. Rowe Price Global Markets Weekly Update

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