SUMMIT FINANCIAL

Summit Snapshot: Week Of June 29th, 2020

Global Markets: Markets grapple with renewed domestic coronavirus concerns

- **U.S. Equities** gave back last week's gains as reopening enthusiasm was traded for heightened concern over new hotspots across the U.S. The S&P 500 Index closed the week off 2.9%, which brought the year-to-date loss to 6.0%. This also brought the market back to correction territory of down more than 10% from February peaks. Renewed virus concerns contributed to a flight of growth-oriented 'work from home' stocks. As a result, the IT (-0.4%) sector was the best relative performer. More cyclical areas of the market generally were the worst performers. This included the energy (-6.4%) and financials (-5.3%) sectors. Unsurprisingly given this backdrop, the Russell 1000 Growth (-1.9%) outpaced the Russell 1000 Value (-4.2%) for the week. This extended an already historically wide year-to-date differential between the two indices which now totals more than 25%.

- **International Equities** generally outperformed U.S. counterparts for the week. The developed, international MSCI EAFE Index fell 1.3% in USD terms while the MSCI Emerging Markets Index was nearly flat for the week. While coronavirus jitters remain present globally, the rate of new daily cases is more stable (or declining) outside of the U.S. The Emerging Markets Index was helped by positive performance from Chinese equities as economic readings improved.

- **Credit Markets** were little changed, although the benchmark 10-year U.S. Treasury yield fell slightly to 0.64% based on virus concerns. With the exception of treasuries, most fixed income market gains from duration were offset by the widening of credit spreads. More defensive areas of the market, such as municipals, generally held up the best. Munis were also bolstered by limited supply and robust demand. More credit sensitive asset classes, such as high yield, fell the most as they were most directly impacted by widening credit spreads. High yield also suffered based on its composition, as it has a larger exposure to cyclical areas of the market such as energy, retail, and financials. The airline segment also traded lower, factoring in concerns that demand would remain constrained for longer than expected.

Economic Data/News: The U.S. continues to see record new daily increases in coronavirus cases while lagged economic data proves more favorable

- **U.S.:** There have been dramatic spikes in coronavirus cases in areas of the country that were previously less affected. In particular, select portions of the south and California appear to be the hardest hit. The national total of new daily cases keeps rising and is reaching new record levels. This brings certain planned reopenings into question and could result in additional lockdowns, although there are many who oppose this. As it stands, several notable companies, such as Disney and Apple, have already delayed reopenings and/or closed stores. Microsoft even announced that it would close most of its retail stores permanently. On the more positive end, continued economic disruptions could lead to additional stimulus from Washington. Economic data also kept on its

positive trend as IHS Markit's service and manufacturing sector activity both beat expectations. New home sales also came in well above consensus, although existing home sales fell a little short.

- **International:** In Europe, an upswing in economic data helped boost confidence that the continent could be bottoming. The flash IHS Markit Eurozone PMI reading surged to 47.5 in June over the 31.9 reading in May. This was the second largest jump in the survey's history. Business confidence across the continent also rose in key countries including Germany and France. While improving data is encouraging, tensions between the U.S. and Europe could be flaring up. The EU strongly condemned the potential for additional tariffs by the U.S. on $3.1 billion of EU and UK goods. Outside of Europe, trade tensions also might be on the rise between China and the U.S. While President Trump tweeted early in the week that the trade deal with China was "fully intact," other headlines indicate that any U.S. intervention in the affairs of Hong Kong and Taiwan could put the phase one trade deal at risk. Outside of trade, China's economic data continued to improve. Notably, China's property market has remains surprisingly resilient given the backdrop.

Odds and Ends: Facebook ad boycotts go into high gear, Disney park fans will have to wait a bit longer, and private equity cash piles remain high

- A call for ad boycotts on **Facebook** took a dramatic turn last week, after several notable companies, including Unilever, Verizon, and Coca-Cola, announced pauses in planned spend on the platform. The #StopHateForProfit campaign is focused on getting Facebook to dramatically increase its efforts against hate speech and disinformation. Facebook is no stranger to controversy and while they have stepped up efforts in this area to some degree, protesters are far from satisfied. With over 8 million advertisers on the platform, its uncertain if the boycotts so far will prove material, although the risk of a snowball effect and wider spread boycotts is an increasingly important risk.

- Anxious, California-based **Disney** fanatics will have to wait a bit longer to return Disneyland after its slated July 17th reopening was scrubbed, indefinitely for now. Orlando's Disneyworld is still scheduled to reopen on July 11th, although there is an increasing opposition to the move with the recent surge in Florida Covid cases. Disney parks are in a tough place given locations in two current hotspots (California and Florida) across the country. There has also been considerable backlash from park employees concerned that appropriate safety measures won't be in place when the parks reopen.

- The overall private equity industry came into the current crisis with record levels of dry-powder or money committed to PE funds that hasn't been invested. Given this fact, it might come as a surprise that the industry has spent a relatively small proportion of this cash stockpile to help existing portfolio companies. So far, 34 private equity backed companies including Hertz, Neiman Marcus and J. Crew have filed for bankruptcy. Part of the reason is that much of the dry powder is in newer funds while legacy fund vehicles that are invested in these companies are running on cash fumes. There is also a negative stigma from many PE investors about putting new fund capital to rehabilitate struggling past investments.

Resource of the week:

- Brad Gerstner is the founder and CIO of Altimeter Capital, a multi-billion-dollar technology and media focused hedge fund. Brad and his team are known for a deep expertise in internet enabled businesses, having been early investors in companies like Expedia, Facebook, Uber, and many more. This conversation discusses the evolution of opportunity in this style of investing, including the important shift to private investing, where much of the value creation now happens. Additionally, Brad and Patrick from *Invest Like the Best* discuss the shift of consumer intent on the internet, the role that essentialism in Brad's business and life, and the rise of the Chinese internet giants like ByteDance (developer of TikTok). Please feel free to submit suggested resources to smelnick@sfr1.com.
    - **Podcast link**: http://investorfieldguide.com/brad-gerstner-public-and-private-investing-invest-like-the-best-ep-179/
    - **Spotify link**: https://open.spotify.com/episode/5vbZZp0HYFAo0RN8SdN6r5?si=lIUpYsUlSDOyTaoWDFfN2

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

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