SUMMIT FINANCIAL

Summit Snapshot: Week Of July 20th, 2020

Global Markets: Major equity indices were mostly positive as fresh hopes of an early vaccine surfaced

- **U.S. Equities** rose for the week as the S&P 500 Index increased by 1.3%. This was the index's third consecutive week of gains, which had even briefly hovered around a positive return for the year. Ironically, there was also a noticeable shift from arguably expensive growth stocks into cheaper value stocks, as the Nasdaq Composite Index fell by more than 1%. Despite the fact that daily records for new coronavirus cases are being reported across the South and West of the U.S., strong enthusiasm was shown by investors after Dr. Anthony Fauci of the White House Coronavirus Task Force was optimistic that the country would have an approved vaccine by year end. In sectors, industrials and materials led after each rose more than 5%. Lagging for the week was technology which fell by 1.2% after both **Netflix (NFLX)** and **Microsoft (MSFT)** stock fell by 10% and 5% respectively on earnings-related concerns. Small-cap stocks bested large-caps while value outperformed growth. It remains to be seen if this could be the start of a market regime shift from the decade-long dominance of the growth style into value.

- **International Equities** were mixed, based on the type of market and region being evaluated. Most developed international markets have contained any current coronavirus outbreaks from continuing, and subsequently appreciated for the week. This is reflected in the MSCI EAFE Index which rose 2.2% in USD terms. On the contrary, new coronavirus case surges are mostly happening in emerging countries, of which the MSCI Emerging Markets Index fell by 1.2%. The notable exception of the group was China, which fell by almost 5% as renewed U.S. trade tensions emerged and some profit taking commenced after some recent capital gains were created.

- **Credit Markets** were slightly positive for the week, as the benchmark 10-year U.S. treasury yield remained unchanged ending the week at 0.63% mostly because inflation has sustained below the Fed's target 2% level. Even being this depressed, investors are expecting marginally increased inflation levels going forward. In fact, a barometer to forecast this known as the break-even inflation rate, jumped to 1.46% from 1.05% on May 1st. In the corporate market, both investment-grade and high-yield segments appreciated in the vicinity of 1% after banks' earnings were dreary but better than expected as reported by Piton Investment Management. Read more from their commentary here. Municipal bonds segment generated a positive return, outperforming Treasuries, as the issuance of new bonds was numerous but more so of the taxable kind.

Economic Data/News: The rise of new coronavirus cases in the U.S. is offset by hopes for a surprisingly early vaccine while some second quarter companies' earnings were filed

- **U.S.:** As the week began with various economic shutdowns being restored in many southern and western states following fresh new record-high daily new virus case counts, investor sentiment took a hit. Then around midweek, **Moderna (MRNA)** and **AstraZeneca (AZN)** both announced their new vaccines in development were showing very positive signs thus far, which seemed to spark a market rise. Both vaccine candidates, in addition to others, are receiving funding from the

government's "Operation Warp Speed" program in efforts to have a readily available vaccine as soon as possible, possibly even in 2020. Around 30 companies reported their second-quarter earnings figures, which were highlighted by banks' steep profit declines, albeit slightly better than forecasted. **JP Morgan (JPM), Citigroup (C),** and **Wells Fargo (WFC)** all set aside funds to account for any potentially bad loans that may surface on their books. Most of the weekly economic data reports were positive as June retail sales beat expectations, weekly initial jobless claims fell week-over-week, and continuing jobless claims also declined more than expected.

- **International:** The European Central Bank (ECB) decided to leave its monetary policy unchanged as it is in a "wait and see" period, in efforts to evaluate any further possible economic recovery measures. ECB President Christine Lagarde is aware of continued stimulus measures required to support the economy and is actively monitoring the situation daily. A similar measure was taken by the Bank of Japan as it decided to keep its target interest rate levels untouched. The central bank also prudently warned its economy will likely contract upwards of 5% in its fiscal year through March 2021, after more than 4,000 businesses filed for bankruptcy through the end of June. Japan's tourism is nearly extinct as it fell 99.9% year-over-year in June. Only 2,600 travelers visited the country – a far cry of the almost 3 million people who visited in June 2019. China reported its GDP grew by 11.5% quarter-over-quarter after a 10% drop in the first quarter. It has become the first major economy to report positive annual growth statistics following the pandemic, even though some economic indicators are lagged and may still decline.

Odds and Ends: Auto manufacturers stress intentions to make electric vehicles, some colleges scrapped sports with low spectator counts, Congress to decide how to move past the $600-a-week relief program

- After the recent extraordinary success seen by rival automaker **Tesla (TSLA)**, other older manufacturers have shifted their business models to ramp up production of electric vehicles. Tesla remains in the limelight of the public after its stock has quadrupled since the March lows and has reignited investor interest. Thus, **General Motors (GM), Volkswagen AC (VWAGY), Ford (F),** and **Nissan (NSANY)** all have plans to roll out electric versions of their fleet of vehicles sometime in the not-too-distant future. Interestingly, the economics have gotten tougher for consumers to purchase an electric vehicle because of COVID-19, but the demand will likely return over time.

- As colleges look for ways to reduce costs and handle unique circumstances the pandemic has created, some are doing away with sports that do not attract much attention broadly. Such sports include rowing, fencing, tennis, squash, swimming, and even golf but largely depend on the locale of the college and surrounding environment. The larger revenue producers, football and men's basketball, are not being cut but rather modifying their schedules for safety concerns. Hopefully, these changes are one-and-done after this year and will return safely in time for the next season.

- Roughly 25 million Americans are expecting to lose the $600 per week income after July 31st that they have been receiving each week since they lost their job during the pandemic. Congress is expected to consider all ramifications related to these actions over the next few weeks. That means whether passing a new relief fund will provide the critical economic support needed in desperate times or whether any new funds may deter people from even returning to work altogether. This will be closely monitored as a lot of businesses have either closed or are still suffering. The national unemployment rate fell to 11.1% in June after a recent high of 14.7% in April.

Resource of the week:

- One of the hottest hobbies that took off during the recent worldwide stay-at-home orders was video gaming. This episode of *Invest Like the Best* featuring Blake Robbins, a partner at venture capitalist firm Ludlow Ventures, focuses on what he has seen the gaming industry go through and what the future holds for it. For instance, the cost of a finite-life retro video game that once existed in the past is more often being replaced by the free-to-play, infinite-life role player type games. Changes like this could dramatically alter the way games and even businesses operate in the future given their nuances. Please feel free to submit suggested resources to smelnick@sfr1.com.

- **Spotify link**: https://open.spotify.com/episode/60MKDviyMQlVkf6PTFVVi5?si=92wdINMGS8qo2IxmZj60cQ

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

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