SUMMIT FINANCIAL

Summit Snapshot: Week Of August 3rd, 2020

Global Markets: Technology stocks again lead global indices higher in the middle of Q2 earnings season

- **U.S. Equities** were positive for the week, led by growth-oriented securities. The S&P 500 Index finished the week ahead 1.8%, although there was a high level of dispersion amongst sectors. Top-performing sectors for the week included IT (+5.0%), real estate (4.1%), and consumer discretionary (2.1%). Technology and consumer sectors benefitted from strong earnings reports from larger constituents while the real estate sector had a tailwind from declining rates. Energy (-4.1%), materials (-1.8%), and financials (-0.9%) were amongst the worst performers. Energy stocks were dragged lower after Chevron and ExxonMobil reported steep quarterly losses. Following a slight recovery over the past several weeks, growth stocks once against bested value stocks and large-caps outperformed small-caps, as measured by the respective Russel Indices.

- **International Equities** were mixed for the week. Developed, International equities, as measured by the MSCI EAFE Index in USD terms, fell 2.1%. European equities were notable laggards after corporate earnings were underwhelming. Emerging market equities fared better, increasing 1.8% for the week led by gains in China. Chinese equities rallied based on positive earnings data although an overhang from flaring tensions with the U.S. remained.

- **Credit Markets** mostly rose for the week after a combination of disappointing economic data, election concerns, and uncertain stimulus pushed yields lower. Notably, the 10-year U.S. Treasury yield reached its lowest level since early March and shows little sign of heading higher in the near term. Municipals continued to perform well, boosted by strong inflows and light issuance. Investment-grade corporate bonds also were marginally positive as gains from the fall in yield were partially offset by wider spreads. Primary issuance was expected to be on the lighter side, approximately $10-15 billion due to the Federal Reserve meeting mid-week. On Monday, AT&T Inc. issued an $11 billion five-part deal, surpassing analyst's low end of the range for new issuance. Moody's reports a record 102 non-financial companies were in the danger of dipping below investment-grade to speculative grade. Read more details below on fixed income from our trusted partner, **Piton Investment Management**: https://pitonim.com/education-and-insights

Economic Data/News: Congress weighs additional stimulus amidst an historic contraction in GDP

- **U.S.:** Economic data generally disappointed to the downside last week. By far, the most notable headline showed the U.S. economy contracted at an annualized rate of 32.9%. This was the largest fall in modern history despite being slightly above of consensus forecasts. The number of Americans filing for unemployment also rose by 1.43 million, the second weekly uptick in a row. The housing market remains one of the select bright spots in the economy as many seek to take advantage of historically low interest rates. Pending home sales rose in June for the first time in four months. Additionally, durable goods orders expanded by 7.3% last month, which was also slightly above consensus. Also notable were several of the most influential leaders in the technology industry testifying before Congress. The CEOs of Facebook, Amazon, Apple, and Google all testified defending their firm's competitive practices. Notably, a subsequent wave of strong corporate earnings beats didn't help their case.

- **International:** European economic data mostly disappointed relative to expectations. The German and French economies both fell over Q2 as household spending, business investment, and exports collapsed. Germany's GDP shrank by a record 10.1% quarter on quarter and the French economy contracted 13.8%. The ECB decided to extend its ban on bank dividends and buybacks until January of next year in efforts of ensuring ample liquidity buffers to handle the impact from the coronavirus crisis. In Asia, the Japanese government lowered its 2020 growth forecast to a 4.5% contraction. The reduction reflects worse than expected effects from the pandemic. In China, data was more positive. China's purchasing managers' index (PMI) July reading was positive despite some renewed coronavirus outbreaks in select areas. June industrial and enterprise sales and profits were also positive.

Odds and Ends: TikTok's uncertain future in the U.S., Lord & Taylor files for bankruptcy, and Marathon Petroleum sells their gas station chain to 7-Eleven

- In soap opera-like drama, TikTok has come under intense scrutiny by President Trump over the past few weeks. Following his comment suggesting a potential ban of the wildly popular social media app in the U.S., rumors circulated that the app might be acquired by Microsoft. Since Friday, Microsoft has paused negotiations to purchase the app after statements suggested that President Trump opposed the deal. The controversy stems from potential national security concerns as TikTok is owned by Chinese-based ByteDance. The White House appears clear in that the platform should be American owned, suggesting that some form of divestiture or acquisition is likely in the company's future.

- It's a tough time for retail and another department store chain, Lord & Taylor has filed for Chapter 11 bankruptcy protection. The chain is one of the oldest department stores in the country and was founded in Manhattan in 1826. The company was known for its extravagant holiday window displays and upscale fashion apparel. The company's owner, Le Tote, also filed for Chapter 11. This comes only a year after Le Tote purchased Lord & Taylor from the prior owner, Hudson's Bay Co.

- Fuel producer Marathon Petroleum has agreed to sell its gas station chain to the owners of 7-Eleven stores in a $21 billion deal. This is the largest energy-related deal so far this year and comes after pressure from activist investor, Elliott Management Corporation. The deal transfers ownership of nearly 4,000 convenience stations and gas stations and would bring 7-Eleven's retail footprint to around 14,000 locations in the U.S. The deal terms also stipulated that Marathon would supply 7-Eleven with around 7.7 billion gallons of fuel for the next 15 years.

Resource of the week:

- Bill Miller has been a household name in the investment management industry for nearly 30 years based on his prior work running the Legg Mason Capital Management Value Trust. He's since founded a new firm, Miller Value Partners, and demonstrated his ability to adapt from a traditional value strategy to a more dynamic interpretation of what value means. In this episode of *Masters in Business*, host Barry Ritholtz picks Miller's brain on the current opportunity set, where he sees value in the market, and the state of the investment management industry among other topics. Please feel free to submit suggested resources to smelnick@sfr1.com.

- **Podcast link**: https://www.bloomberg.com/news/audio/2020-07-10/bill-miller-on-the-classical-value-portfolio-podcast

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