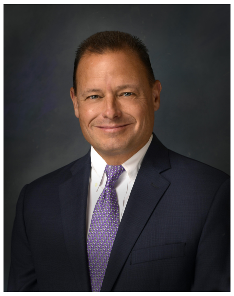

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Market Month: August 2020

The Markets (as of market close August 31, 2020)

The positive run for stocks continued in August as the major market indexes regularly reached all-time highs. While investors remained bullish toward equities, it wasn't always clear why.

Although the economy is gradually picking up steam, it has a ways to go to reach its pre-pandemic level. Gross domestic product for the second quarter showed that the economy receded at an annual rate of 31.7%. Job growth is ongoing, yet more than 14 million people are receiving unemployment benefits.

Personal income inched ahead by 0.4%, but consumer spending rose by 1.9%. Inflation remained well below the Federal Reserve's target of 2.0%, keeping prices for consumer goods and services down. Interest rates for loans and mortgages remain low helping the housing sector to surge.

The Federal Reserve has maintained accommodative measures to help spur the economy, yet additional stimulus relief from the federal government has reached a stalemate. Globally, tensions between the United States and China have risen, potentially putting the phase-one trade deal between the economic giants in jeopardy.

The COVID-19 pandemic continues to dominate nearly every aspect of life. States are struggling to settle on appropriate protocols for reopening schools. Testing for the virus has increased, and the numbers of COVID-related infections and deaths continue to mount. Throughout August, news of improved virus treatments and possible vaccines offered encouragement.

By the end of the month, each of the benchmark indexes listed here scored sizable gains, leading to the best August in decades. The technology sector continued to flourish last month, leading the Nasdaq to record highs. The Dow closed the month up 7.6%, followed by the S&P 500, the Global Dow, and the Russell 2000.

Year to date, the Nasdaq is 31.2% ahead of last year's pace, followed by the S&P 500, which is up 8.3%. The Dow is nearly at its 2019 closing value, while the Global Dow and the Russell 2000 continued to gain ground.

By the close of trading on August 31, the price of crude oil (CL=F) was $42.81 per barrel, ahead of its July 31 price of $40.41 per barrel. The national average retail regular gasoline price was $2.182 per gallon on August 24, $0.007 higher than the July 27 selling price of $2.175, but $0.392 less than a year ago. The price of gold remained steady through August, closing at $1,974.90 on August 31, down slightly from its July 31 closing price of $1,989.90.

Key Dates/Data Releases

9/1: ISM Manufacturing Index

9/3: International trade in goods and services, ISM Non-Manufacturing Index

9/4: Employment situation

9/9: JOLTS

9/10: Producer Price Index

9/11: Consumer Price Index, Treasury budget

9/15: Import and export prices, industrial production

9/16: Retail sales, FOMC statement

9/17: Housing starts

9/22: Existing home sales

9/24: New home sales

9/25: Durable goods orders

9/29: International trade in goods

9/30: GDP, personal income and outlays

Stock Market Indexes

Market/Index	2019 Close	Prior Month	As of August 31	Month Change	YTD Change
DJIA	28,538.44	26,428.32	28,430.05	7.57%	-0.38%
Nasdaq	8,972.60	10,745.27	11,775.46	9.59%	31.24%
S&P 500	3,230.78	3,271.12	3,500.31	7.01%	8.34%
Russell 2000	1,668.47	1,480.43	1,561.88	5.50%	-6.39%
Global Dow	3,251.24	2,920.53	3,094.33	5.95%	-4.83%
Fed. Funds	1.50%-1.75%	0.00%-0.25%	0.00%-0.25%	0 bps	-150 bps
10-year Treasuries	1.91%	0.53%	0.69%	16 bps	-122 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Latest Economic Reports

- **Employment:** Employment increased by 1.8 million in July after adding 4.8 million jobs in June. These improvements in the labor market reflected the continued resumption of economic activity that had been curtailed due to the coronavirus (COVID-19) pandemic and efforts to contain it. In July, notable job gains occurred in leisure and hospitality, government, retail trade, professional and business services, other services, and health care. The unemployment rate dropped 0.9 percentage point to 10.2% for the month as the number of unemployed persons dropped by 1.4 million to 16.3 million (17.8 million in June). Despite declines over the past three months, these measures are up by 6.7 percentage points and 10.6 million, respectively, since February. In July, average hourly earnings rose by $0.07 to $29.39. Average hourly earnings increased by 4.8% over the last 12 months ended in July. The average work week decreased by 0.2 hour to 34.5 hours in June. The labor participation rate, at 61.4%, changed little in July following increases in May and June. The employment-population ratio rose by 0.5 percentage point to 55.1%.
- Claims for unemployment insurance mostly leveled off in August. According to the latest weekly totals, as of August 15 there were nearly 14.5 million workers still receiving unemployment insurance. The insured unemployment rate was 9.9% (11.6% as of July 18). The highest insured unemployment rates in the week ended August 8 were in Hawaii (19.8%), Puerto Rico (19.2%), Nevada (17.3%), California (16.1%), New York (15.4%), Connecticut (13.6%), Louisiana (13.5%), the Virgin Islands (12.8%), Georgia (12.6%), and Massachusetts (12.2%). During the week ended August 8, 49 states reported 10,972,770 individuals claiming Pandemic Unemployment Assistance benefits and 49 states reported 1,407,802 individuals claiming Pandemic Emergency Unemployment Compensation benefits.
- **FOMC/interest rates:** The Federal Open Market Committee did not meet in August. The FOMC is scheduled to next meet in September.
- **GDP/budget:** According to the second estimate for second-quarter gross domestic product, the economy decelerated at an annualized rate of 31.7%. GDP decreased 5.0% in the first quarter. Stay-at-home orders issued in March and April in response to the COVID-19 pandemic greatly impacted the economy. Consumer spending was a big drag, falling 34.1%, reeling from the initial effects of the pandemic. Fixed investment fell 28.9% in the second quarter (-1.4% in the first quarter), and nonresidential fixed investment dropped 26.0% in the second quarter, compared to a 6.7% decline in the prior quarter. Exports were down 63.2%, and imports sank 54.0%. Nondefense government expenditures increased 40.1% due to stimulus spending programs initiated in response to the pandemic.
- The Treasury budget deficit may have come in smaller than expected in May, but it surged in June. The deficit was $864.1 billion, exceeding the June 2019 budget deficit by nearly $855 billion. Government spending reached $1.1 trillion in June. Through the first nine months of fiscal year 2020, the deficit is $2.74 trillion. Over the same period in the previous fiscal year, the budget deficit was $744.1 billion.
- **Inflation/consumer spending:** According to the Personal Income and Outlays report for July, personal income increased 0.4%, and disposable (after-tax) personal income advanced 0.2% after falling 1.1% and 1.4%, respectively, in June. Consumer spending slowed in July, but still increased 1.9% for the month, well short of June's 6.2% advance. Inflation remained muted as consumer prices inched ahead by 0.3% in July. Prices have increased by a mere 1.0% over the last 12 months.
- Following three consecutive monthly declines, consumer prices rose 0.6% in June, according to the Consumer Price Index. Year to date, consumer prices are up 0.6%. Gasoline prices surged in June,

climbing 12.3%. Excluding food and energy, consumer prices increased 0.2% in June and 1.2% over the last 12 months.

- Prices that producers receive for goods and services declined 0.2% in June after climbing 0.4% in May. Year to date, producer prices are down 0.8%. In June, the decrease in overall producer prices was driven by a 0.3% decline in prices for services. Producer prices for goods rose 0.2%.
- **Housing:** The housing sector continued to post strong sales numbers in July. Sales of existing homes jumped 24.7% last month after climbing 20.7% in June. Over the 12 months ended in July, existing home sales are up 8.7% (-11.3% for the 12 months ended in June). The median existing-home price in July was $304,100 ($295,300 in June). Unsold inventory of existing homes represents a 3.1-month supply at the current sales pace, down from 3.9 months in June. Sales of existing single-family homes soared 23.9% in July following a 19.9% surge in June. Over the last 12 months, sales of existing single-family homes are up 9.8%.
- After climbing 13.8% in June, sales of new single-family homes surged again in July, increasing 13.9% for the month. The median sales price of new houses sold in July was $330,600 ($329,200 in June). The average sales price was $391,300 ($384,700 in June). July's inventory of new single-family homes for sale represents a supply of 4.0 months at the current sales pace, down from June's estimate of 4.7 months.
- **Manufacturing:** Total industrial production rose 3.0% in July after increasing 5.7% in June; even so, industrial production remained 8.4% below its pre-pandemic February level. Manufacturing output continued to improve in July, rising 3.4%. Most major industries posted increases, though they were much smaller in magnitude than the advances recorded in June. The largest gain in July — 28.3% — was registered by motor vehicles and parts; factory production elsewhere advanced 1.6%. Mining production rose 0.8% after five consecutive monthly decreases. The output of utilities increased 3.3%. Total industrial production was 8.2% lower in July than it was a year earlier.
- For the third consecutive month, new orders for durable goods increased, climbing 11.2% in July following June's 7.7% increase. Transportation equipment, also up for three consecutive months, again drove the July increase, surging ahead by 35.6%. Excluding transportation, new orders increased by 2.4%. Excluding defense, new orders increased by 9.9%.
- **Imports and exports:** The price index for U.S. imports rose 0.7% in July, following a 1.4% jump in June. Both the June and July advances were driven by rising fuel prices. U.S. export prices increased 0.8% in July, after advancing 1.2% the previous month. Year to date, import prices are down 3.3%, while export prices have fallen 4.4%.
- The international trade in goods deficit was $79.3 billion in July, up $8.3 billion, or 11.7% from June. Exports of goods for July were $12.2 billion, or 11.8% more than June exports. Imports of goods for July were $20.5 billion, or 11.8% more than June imports. Exports of motor vehicles increased 44.6% in July. Imports of motor vehicles climbed 41.3% in July.
- The latest information on international trade in goods and services, out August 5, is for June and shows that the goods and services trade deficit was $50.7 billion, down $4.1 billion, or 7.5% less than the May deficit. June exports were $13.6 billion, or 9.4% more than May exports. June imports were $9.5 billion, or 4.7% more than May imports. Year to date, the goods and services deficit sits at $274.3 billion, a decrease of $23.1 billion, or 7.8%, from the same period in 2019.
- **International markets:** Shinzo Abe, Japanese Prime Minister since 2012, announced that he will resign due to poor health. A new leader is expected to be chosen by the Liberal Democratic Party, of which Abe was the leader, and approved by parliament until national elections are held in October of 2021. The Nikkei fell following Abe's announcement. Elsewhere, Andrew Bailey, Bank of England Governor, pronounced more stimulus is available, if needed, to support the U.K. economy. German bond prices plunged, sending yields to their highest level since early June, a sign that inflation and interest rates will remain low. In China, industrial production fell in July, although it remains 4.8% ahead of last year's pace.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® decreased in August after declining in July. The index stands at 84.8, down from 91.7 in July. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, decreased sharply from 95.9 to 84.2. The Expectations Index, which is based on consumers' short-term outlook for income, business, and labor market conditions, declined from 88.9 in July to 85.2 in August.

Eye on the Month Ahead

Most economic indicators in July were positive as the economy continued to reopen. However, the pandemic still rages and new issues may develop as schools reopen. The trade dilemma with China will likely continue to impact the economies of both countries. New developments in the treatment of the pandemic should bring hope that the end is in sight and spur further economic growth.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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