



Index	Price Returns		
	Close	Week	YTD
Dow Jones Industrial Average	26,429	-0.2%	-7.4%
S&P 500 Index	3,271	1.7%	1.3%
NASDAQ	10,745	3.7%	19.8%
Russell 2000 Index	1,480	0.9%	-11.3
MSCI EAFE Index	1,846	-0.7%	-9.4%
10-yr Treasury Yield	0.54%	-0.1%	-1.4%
Oil WTI (\$/bbl)	\$40.43	-2.1%	-33.79%
Bonds*	\$119.58	0.3%	7.6%

Source: Bloomberg, FactSet

\*Bonds represented by the iShares U.S. Aggregate Bond ETF

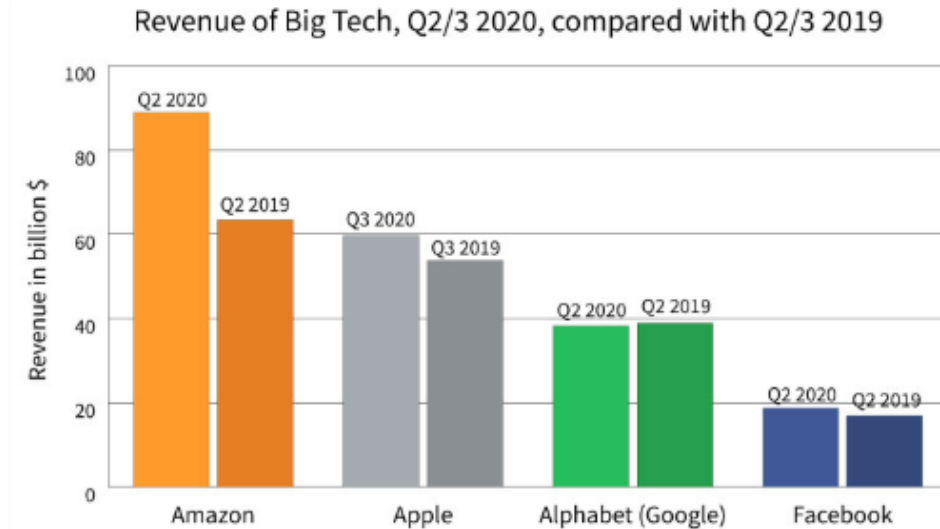
## Last Week:

### U.S. Equity Market

- U.S. large cap equities (S&P 500® Index) rose 1.7% as Q2 earnings were generally better than the low expectations (especially for mega-cap Tech), more optimistic vaccine headlines were reported, and Federal Reserve Chair Powell stated the Fed will do what it can for “as long as it takes.” July’s gains were the best since 2010. Equities shrugged off concerns about the sluggish negotiations in Washington over a fifth round of COVID-19 stimulus, with the Senate unveiling its \$1T proposal. Mega-cap growth, and stay- and work-from-home stocks outperformed value stocks and companies leveraged to economic reopening. The dollar was weaker for the sixth straight week, gold rose 4.7% (its fifth-straight month of gains), and oil (WTI) fell -2.1%.
- Sector performance:
  - Information technology (+5.0%) outperformed led by Apple (+14.7%), **PayPal** (+13.6%), & NVIDIA (+4.1%). Eastman Kodak’s stock rose tenfold for the week (inclusive of a 20% decline Friday) after receiving funding from the Defense Production Act to manufacture pharmaceutical ingredients
  - REITs (+4.2%) outperformed led by Digital Realty Trust (+9.2%), Public Storage (+7.8%), Equinix (+6.5%), Prologis (+5.5%), and SBA Communications (+4.3%)
  - Consumer discretionary (+2.1%) outperformed led by **Amazon** (+5.2%)
  - Communication services (+1.7%) outperformed led by **Facebook** (+10.0%), **Activision Blizzard** (+3.3%), and Netflix (+1.8%)
  - Utilities (+0.9%) underperformed led by American Electric Power (-1.3%)
  - Consumer staples (+0.9%) underperformed despite strength from Church & Dwight (+12.2%), Procter & Gamble (+4.1%), and Colgate-Palmolive (+3.9%)
  - Health care (+0.3%) underperformed led by biotech, managed care, and pharma
  - Industrials (-0.2%) underperformed led by aerospace/defense, and airlines



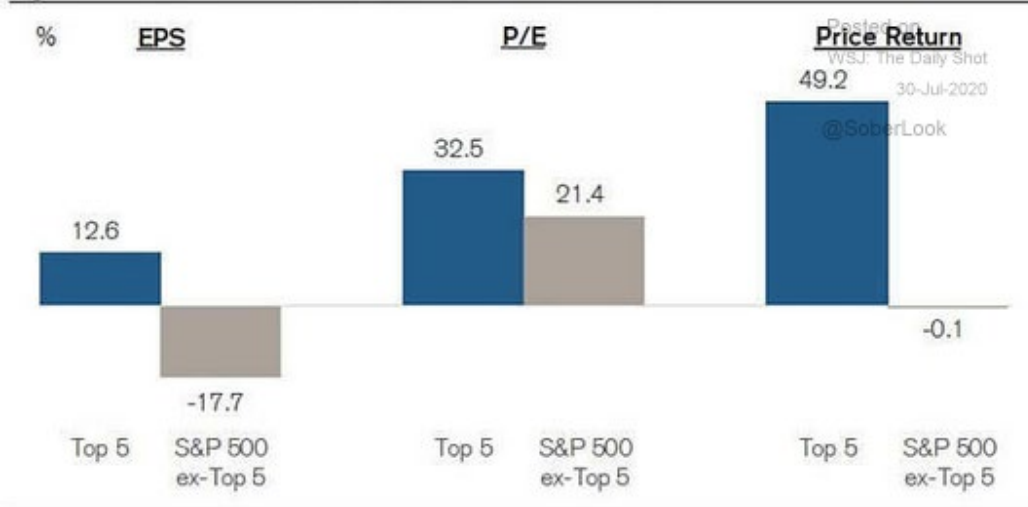
- Financials (-0.9%) underperformed led by the banks, credit cards and insurers
- Materials (-1.8%) underperformed led by chemicals and industrial metals
- Energy (-4.2%) underperformed as oil prices (WTI) fell -2.1%
- Apple (+14.7%), Facebook (+10.0%), Amazon (+5.2%), and **Alphabet** (-1.3%) all reported robust revenue and earnings for the second quarter despite FactSet estimating a quarterly earnings decline of -42.4% for the broad S&P 500 Index



Source: Verdict (Public Website)

- The Big 5 (Apple, Amazon, Microsoft, Alphabet and Facebook) have contributed positively to S&P 500 earnings growth year-over-year, which has led to their significant outperformance over the past year (49.2% vs. -0.1%) along with multiple expansion or higher P/E ratios

**Figure 1: YoY Contribution of EPS and P/E to Returns**

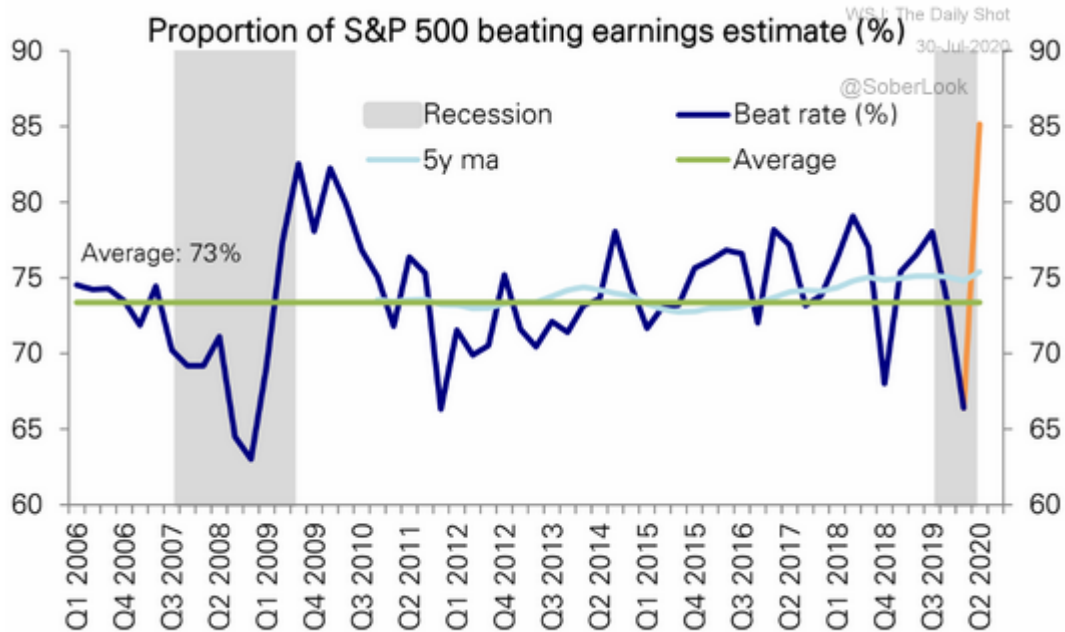


Source: Standard & Poor's, Thomson Financial, FactSet and Credit Suisse

Source: Credit Suisse



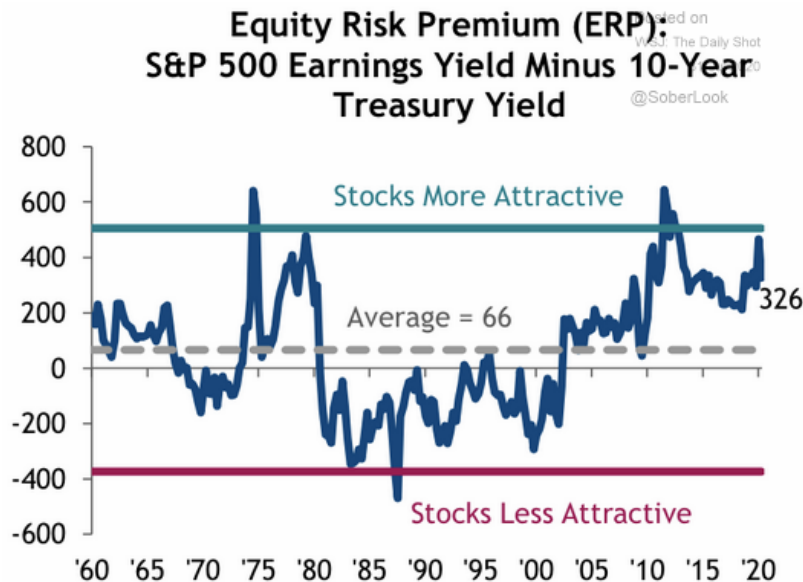
- A record 85% of S&P 500 companies are beating earnings estimates (although expectations were quite low), which is well above the historical rate of 73%



Source: Bloomberg Finance LP, Deutsche Bank Asset Allocation

Source: Wall Street Journal

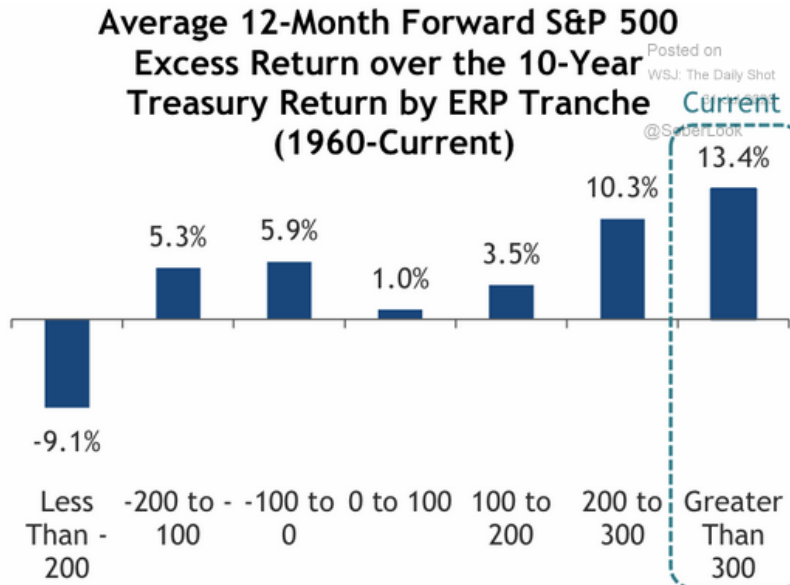
- Even with the S&P 500 Index's rally from the March 23 low, stocks appear attractively valued relative to Treasuries on an equity risk premium (ERP) basis



Source: Wall Street Journal



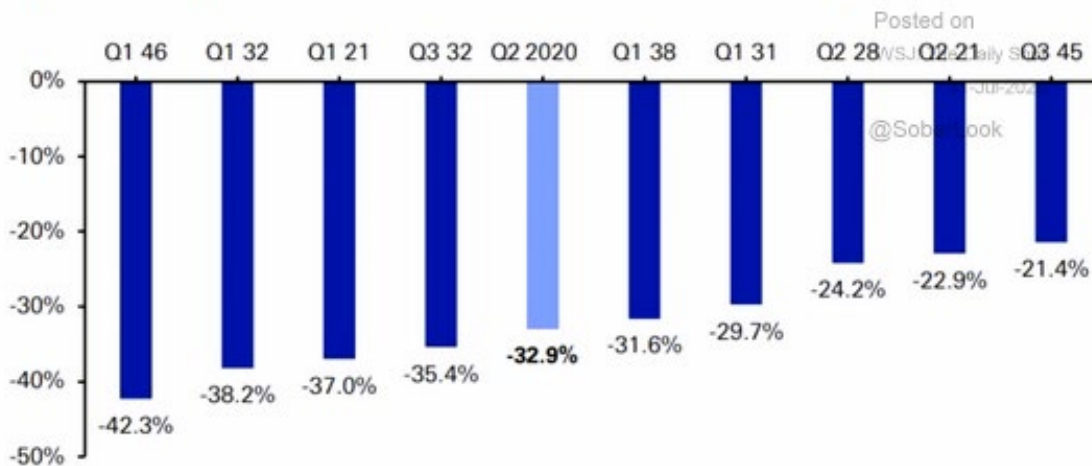
- Historically, when the equity risk premium of the S&P 500 is greater than 300bps (currently at ~326bps), the 12-month forward excess return for the S&P 500 over the 10-year Treasury has averaged 13.4%



Source: Wall Street Journal

- Some investors are shocked that the S&P 500 Index is up 1.3% year-to-date even though the U.S. just reported second quarter GDP of -32.9%, which is the the fifth worst quarter of all-time, right behind Q3/1932 during the Great Depression

Top 10 worst quarters for Real US GDP over the last century



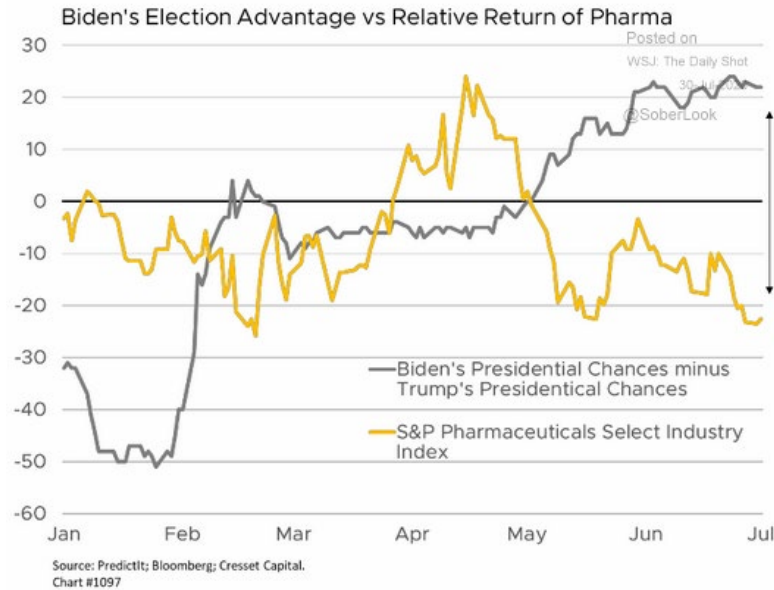
Source: Deutsche Bank, GFD, Bloomberg Finance LP

Source: Wall Street Journal

- The stock market's capitalization reached two times GDP, surpassing the previous record of 1.87 times at the peak of the dot com bubble in the first quarter of 2000



- Joe Biden's improving odds of winning the election coincide with the underperformance of pharmaceutical stocks



Source: Wall Street Journal

### Fixed Income Markets

- The U.S. 10-year Treasury yield is at its lowest level since the start of the crisis



Source: Wall Street Journal

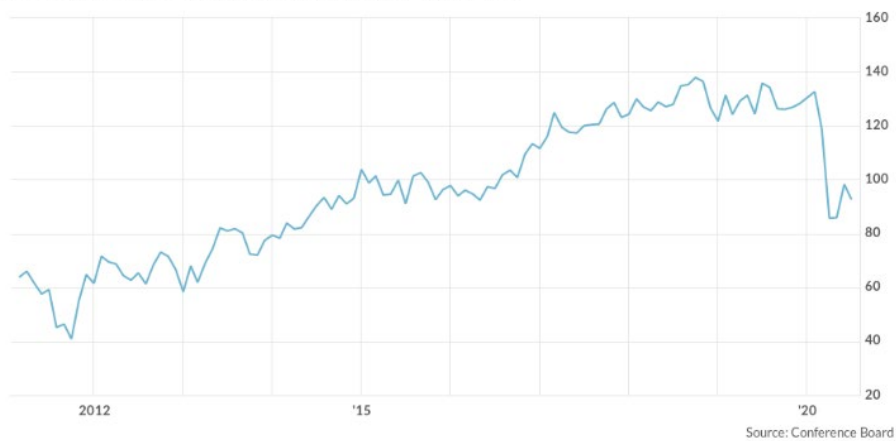


**U.S. Economic and Political News**

- The Conference Board’s Consumer Confidence index rose to 98.1 in June from a revised 85.9 in May, and the result far outpaced the 90.8 consensus forecast
- The initial reading of second quarter GDP revealed a -32.9% plunge, slightly better than the -34.6% consensus forecast
- Weekly Jobless Claims were 1.434 million, nearly matching the consensus forecast
- The Conference Board’s Consumer Confidence gauge printed 92.6 in the July reading, down from 98.3 in June and shy of the 96.0 consensus forecast

**Consumer confidence deflates in July**

Americans turn more pessimistic as confidence index falls to 92.6 from 98.3

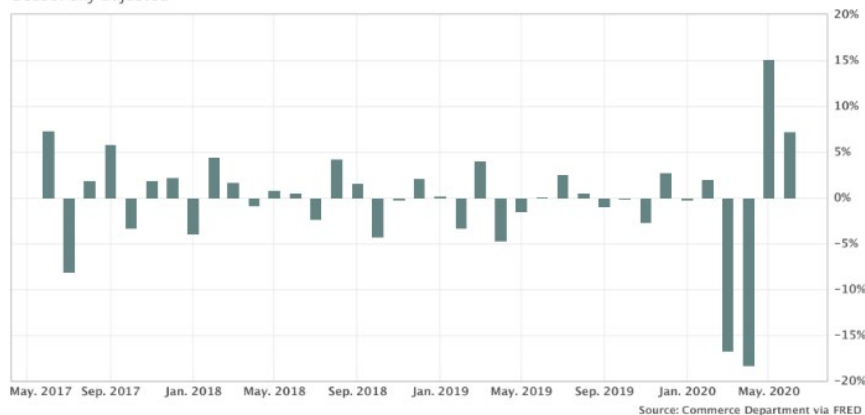


Source: Marketwatch

- Durable Goods Orders slightly surpassed Street expectations, with robust automobile orders offsetting weak aircraft orders

**Durable-goods orders**

Seasonally adjusted



Source: Marketwatch

- Federal Reserve Chair Jay Powell said the Open Market Committee is not “thinking about thinking about thinking about” increasing interest rates anytime soon. That’s an incremental “thinking about” since his last public pronouncement. Could a fourth repetition of the concept be next?



### **International Markets and News**

- The Chinese stock market (Shanghai Composite) rose 3.5% despite the Yangtze River basin flooding across central China, while U.S.-China trade tensions continued
  - China's PMI readings for July were positive despite a resurgence in COVID-19 outbreaks in some areas
  - A record RMB 1.36T of restricted shares are scheduled to be unlocked and available for trading in the A-share market, which has historically led to heavy selling from institutional investors
- European equities (STOXX Europe 600) fell ~3.0%, with risk aversion picking up as second wave COVID-19 fears offset some of the recent tailwinds from policy support
  - Mixed earnings reports from European banks were overwhelmed by large loan loss provisions
  - The Italian government won backing to expand its stimulus measures by €25B next month
- Japanese equities (Nikkei 225 Index) fell -4.6% as the Japanese Cabinet Office lowered its GDP growth forecast for fiscal 2020, which ends in March 2021, to a -4.5% contraction from a growth forecast of +1.4% about six months ago
  - Tokyo Governor Koike confirmed that there were 463 new COVID-19 cases in Tokyo on July 31, which was up from the prior day's record of 367 cases, and she stated that if the situation gets any worse she will consider issuing a state of emergency for the city independent of the central government





**This Week:**

- **Alphabet** is partnering with ADT, providing Nest devices for home security systems
- **Microsoft** confirmed it is interested in acquiring TikTok
- Siemens is acquiring Varian Medical
- Lord & Taylor announced it is declaring bankruptcy, as did Tailored Brands (parent of Men's Wearhouse and Jos A Bank)
- Earnings season begins to wrap up this week, with notable earnings including, but not limited to: Walt Disney, Toyota, Novo Nordisk, T-Mobile, **Bristol-Myers Squibb**, Siemens, Sony, HSBC, **Fidelity National Information Services**, Allianz, **CVS Health**, Zoetis, Regeneron Pharmaceuticals, Booking Holdings, **Fiserv**, Bayer, **Activision Blizzard**, SoftBank, Square, Adidas, **Global Payments**, Uber, Nintendo, **Humana**, Match Group, American Electric Power, BMW, Monster Beverage, Honda Motor, Twilio, Emerson Electric, Public Storage, SBA Communications, **Thomson Reuters**, MetLife, Sands China, **Ferrari**, KLA-Tencor, **Verisk Analytics**, Glencore, WEC Energy, Allstate, Clorox, Moderna, Zimmer Biomet, AIG, EOG Resources, **Restaurant Brands**, Manulife Financial, RingCentral, Wayfair, Prudential Financial, Marathon Petroleum, Kakao, **Ball Corp**, **Motorola Solutions**, TransDigm, **Tyson Foods**, KKR, Arista Networks, **Take Two**, Roku, **Discovery Communications**, Paycom Software, Etsy, Liberty Global, **FMC**, Ingersoll Rand, Western Digital, Cloudflare
- The U.S. macro-economic calendar will see manufacturing data Monday with Markit Manufacturing PMI and ISM Manufacturing figures, with durable orders, vehicle sales figures, trade balance, and continuing jobless claims data all coming over the remainder of the week. Employment data once again looks to be the highlight
- U.S. Economic data:
  - Monday: Manufacturing PMI, Construction Spending, ISM Manufacturing Index
  - Tuesday: Factory Orders
  - Wednesday: MBA Mortgage Purchase Applications, ADP Employment Report, Trade Balance, Services PMI, ISM Non-Manufacturing Index
  - Thursday: Challenger Job Cuts
  - Friday: Nonfarm Payrolls, Unemployment Rate, Average Weekly Hours, Average Hourly Earnings, Ivey PMI, Consumer Credit

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®  
Executive Director

Adam Bergman, CFA®  
Executive Director





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**S&P 500®:** The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P® Composite includes 500 of the largest stocks (in terms of stock market value) in the United States; prior to March 1957 it consisted of 90 of the largest stocks. The volatility of an index varies greatly; investments cannot be made directly in an index.

**Russell 2000®:** The Russell 2000® index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks. It is a market-cap weighted index.

**Dow Jones:** The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

**NASDAQ:** The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

**NASDAQ-100:** The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

**MSCI EAFE:** MSCI EAFE Index is an equity index which captures large and mid cap representation across 21 Developed Markets countries\* around the world, excluding the US and Canada. With 902 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

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