

August 2020

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 8/31/2020

Global Overview

Global equity markets continued to perform strongly in August with U.S. Large Cap Indexes eclipsing the high market level set prior to the onset of the pandemic in March. The strong performance was primarily the result of continued strength in economic data including U.S. manufacturing accelerating for the third straight month in August. The S&P 500 Index broke through its previous high of 3,380 to reach 3,500 on August 31st. Within domestic fixed income, high yield and investment grade corporates posted positive returns, largely assisted by narrowing credit spreads.

U. S. Markets and the Economy

The upcoming U.S. elections became more of a focus during August as both parties' political conventions were held during the month. Talk of increased volatility loomed over the market as concerns were raised about the potential need to fully utilize mail-in voting to ensure voters' health amid the pandemic.

U.S. economic data was mixed in August with Core PCE remaining below the Fed's target at 1.25% for the month but still improving from the 1.07% report for June. Driven by fiscal stimulus and Fed Policy, expectations for inflation grew in the month as the 10-year breakeven inflation rate on TIPS increased to 1.80% in August from 1.56% in July. TIPS outperformed nominal U.S. Treasuries as inflation picked up and the long end of the yield curve steepened. The U.S. unemployment rate continued to decline, falling to 8.4% in August from 10.2% in July. U.S. Non-farm payrolls increased by 1.4 million new jobs, which was slightly higher than expectations, but still below the 1.8 million jobs added in July and 4.8 million jobs added in June. U.S. durable goods orders rose 11.2% in July, which more than doubled expectations. Core capital goods orders were up 1.9% in July.

In early August after the Fed had extended its asset purchase program, there were hopes that Congress would be able to agree to a fourth coronavirus fiscal stimulus bill, but the two parties were not able to come to an agreement regarding stimulus measures prior to Congress' August recess. An agreement had been highly anticipated with the federal employment assistant program's additional \$600 per week unemployment benefit set to end on July 31, 2020. As a result, the market turned its focus to the Fed's Economic Policy Symposium in Jackson Hole, WY. Fed Chair Powell announced that the Fed would consider their 2% inflation target as an average over time instead of the traditional current inflation report which suggests they would be willing to let inflation float to levels higher than the 2% target before taking action. Powell also stated they would not necessarily tighten monetary policy once a few low unemployment and targeted inflation readings are reported, but instead would keep interest rates lower for a longer period to ensure the economy had truly entered a recovery.

The month of August has historically been the second lowest month for new issuance volume (December being the lowest month) due to market participants taking summer vacations. This year has been an anomaly with investment grade and high yield bond issuers continuing to enter the market with new issues as rates remain favorable. Investment grade issuance totaled \$136 billion for the month, which more than doubled expectations. High yield issuance reached a second all-time record of \$53 billion for August. Even with this increased supply, investment grade spreads remained range-bound for the month at 131 bps with high yield spreads tightening 21 bps to a spread of 480 bps.

As a result of millions of people working from home, having lost their jobs, or companies having to close their offices due to the coronavirus, technology and communication companies continued to be the primary contributors to the

domestic equity market's performance. As a result, the performance gap between growth versus value securities remained wide with most of the technology companies classified as growth stocks and industrials and financial companies more typically classified as value stocks. An example of this gap was experienced this year with an eight percentage point difference in year-to-date performance between the Dow Jones Industrial Average Index and the S&P 500 Index. This performance gap between the two indices is the widest since 1932. The S&P 500 Index has a larger concentration of technology (28% of the index) and communication companies (11% of the index) as compared to the Dow Jones Industrial Average Index's exposure to technology (26% of the index) and communication companies (4% of the index).

- The Dow Jones Industrial Average Index returned 7.9% in August and 1.3% year-to-date
- The S&P 500 Index returned 7.2% in August and 9.7 year-to-date
- The Russell 2000 Index returned 5.6% in August, though still down -5.5% year-to-date
- The Bloomberg Barclays Aggregate Index returned -0.8% in August with the ICE BofA U.S. High Yield Index returning 1.0% for the month.

International Markets & Economy

Developed international and emerging markets posted strong returns for the month of August led by China. The Asia Pacific region posted the strongest returns while Latin American markets suffered in the wake of a weak Brazilian equity market. China's equity market was bolstered by strong economic data in manufacturing and service PMI, which seems to have returned to pre-Covid levels. The weaker U.S. Dollar also provided a boost to the Asian equity markets.

The Indian equity market lagged the broad emerging market during the month, due to continued record high levels Covid-19 cases being logged through the end of August. As the pandemic continued to impact the Indian economy, market analysts have started to downgrade India's GDP growth prospects into 2021. The Korean equity market was also negatively impacted by the coronavirus during the month of August. Korea experienced a second wave of Covid-19 cases toward the end of August, causing South Korean equities to underperform the emerging markets. As a result, the South Korean government was required to reimplement its previous social restrictive policies which could further put downward pressure on their economy if such measures are necessary over a sustained month or two.

The Japanese equity market reported one of the region's strongest performance as a result of corporate profits gaining ground and returning to pre-Covid returns. This economic strength comes even though Japan's Prime Minister Shinzo Abe announced his resignation due to his prolonged illness with ulcerative colitis. Abe's three-pronged policy to bring the country out of its deflationary status seems to have taken hold, which the market anticipates being maintained as the country identifies Abe's likely successor. Abe has stated he would maintain his position until his successor has been selected.

- The MSCI Emerging Markets Index (USD) returned 2.2% in August. Similar to the U.S., a large portion of emerging markets equity returns have been led by technology-oriented companies, which have led the way globally for the entirety of 2020.
- The MSCI EAFE Index returning 5.1% in August was outpaced by the MSCI Japan Index (USD) returning 7.6% in August and the MSCI EAFE SC Index (USD) returning 7.5% for the month.

In the News

Commercial real estate continues to feel the impact of the pandemic. Specifically, during Q2 the number of transactions among ODCE constituents totaled a paltry 30, compared to a seasonal normal of 100-200. The lack of transactions made price

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discovery challenging for appraisers, resulting in liquidity problems for investors. On a positive note, rent collections are steadily improving. During August, ODCE constituents collected 87.9% of rent owed, including 65.1% from retail tenants. This compares favorably with results earlier in the year in which total rent collected bottomed out at just above 80% and 50% respectively.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation ²
	Latest	2020 ¹	2021 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	-31.70	-7.30	4.06	8.40	0.69	-	-	1.74
China	54.60	-2.63	6.79	3.80	3.04	6.86	7.16	2.40
Japan	-27.80	-6.05	2.07	2.90	0.05	105.30	105.86	0.10
United Kingdom	-59.80	-11.50	9.00	3.90	0.32	1.33	1.22	0.83
Euro Area	-40.30	-9.10	4.50	7.90	0.22	1.19	1.11	0.83
Germany	-33.50	-6.60	5.77	4.40	-0.43	1.19	1.11	0.85
France	-44.80	-11.38	7.70	6.90	-0.09	1.19	1.11	0.20
Italy	-42.20	-11.28	7.72	9.70	1.16	1.19	1.11	-0.13
Canada	-38.70	-7.97	3.89	10.90	0.62	1.31	1.33	0.91
India	-69.40	-3.72	7.94	8.40	6.08	74.93	68.74	5.06
Mexico	-52.70	-7.54	3.00	3.30	5.85	21.87	20.01	3.33
Brazil	-33.50	-7.44	4.18	13.30	6.92	5.45	4.16	2.13

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, Bureau of Economic Analysis, Trading Economics, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD

2. In terms of CPI All Items

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	6.68	14.74	5.34	16.79	9.82	10.42	10.74
	BBgBarc US Agg Bond TR USD	(0.81)	1.31	6.85	6.47	5.09	4.33	3.65
	Russell 3000 TR USD	7.24	15.93	9.39	21.44	13.95	13.86	14.94
	DJ Industrial Average TR USD	7.92	12.63	1.30	10.27	11.58	14.21	13.79
	NASDAQ Composite PR USD	9.59	24.08	31.24	47.88	22.35	19.78	18.74
	MSCI EAFE NR USD	5.14	11.26	(4.61)	6.13	2.34	4.72	5.88
	FTSE Treasury Bill 3 Mon USD	0.01	0.03	0.55	1.18	1.68	1.15	0.61
	Bloomberg Commodity TR USD	6.76	15.43	(9.04)	(3.90)	(3.13)	(3.10)	(5.05)
Domestic Equities	S&P 500 TR USD	7.19	15.48	9.74	21.94	14.52	14.46	15.16
	S&P MidCap 400 TR	3.51	9.65	(5.55)	4.22	5.38	8.11	12.05
	S&P SmallCap 600 TR USD	3.99	12.31	(11.07)	(0.55)	3.82	7.47	12.31
	Russell 1000 TR USD	7.34	16.14	10.43	22.50	14.58	14.31	15.19
	Russell 1000 Growth TR USD	10.32	23.98	30.47	44.34	24.18	20.66	19.02
	Russell 1000 Value TR USD	4.14	7.53	(9.35)	0.84	4.50	7.53	11.05
	Russell Mid Cap TR USD	3.52	11.57	(0.41)	8.73	8.83	9.76	13.11
	Russell Mid Cap Growth TR USD	2.72	13.53	15.54	23.56	17.86	14.94	16.03
	Russell Mid Cap Value TR USD	3.96	10.10	(10.82)	(1.30)	2.51	6.14	10.94
	Russell 2000 TR USD	5.63	12.40	(5.53)	6.02	5.03	7.65	11.53
	Russell 2000 Growth TR USD	5.87	13.71	6.15	17.28	10.90	10.45	14.08
	Russell 2000 Value TR USD	5.39	10.68	(17.71)	(6.14)	(1.39)	4.37	8.71
International Equities	MSCI ACWI Ex USA NR USD	4.28	13.85	(3.05)	8.31	2.63	5.75	5.26
	MSCI EAFE NR USD	5.14	11.26	(4.61)	6.13	2.34	4.72	5.88
	MSCI EAFE Growth NR USD	4.45	12.68	5.29	15.49	7.97	8.48	8.16
	MSCI EAFE Value NR USD	5.85	9.84	(14.38)	(3.24)	(3.40)	0.79	3.46
	MSCI Japan NR USD	7.61	5.89	(1.64)	10.16	4.27	5.80	6.58
	MSCI AC Asia Ex Japan NR USD	3.55	21.75	7.02	21.62	5.39	10.54	6.68
	MSCI Europe NR USD	4.11	12.51	(5.71)	5.43	1.61	3.95	5.71
	MSCI United Kingdom NR USD	3.54	6.52	(19.42)	(7.71)	(2.93)	(0.31)	3.43
	MSCI EAFE Small Cap NR USD	7.46	12.59	(3.49)	10.66	2.61	6.79	8.58
MSCI EM NR USD	2.21	19.53	0.45	14.49	2.83	8.66	3.76	
Fixed Income	BBgBarc US Govt/Credit TR USD	(1.16)	1.71	8.09	7.26	5.67	4.81	3.91
	BBgBarc US Govt/Credit Interm TR USD	(0.12)	1.25	5.94	5.95	4.28	3.54	2.96
	BBgBarc US Govt/Credit Long TR USD	(3.75)	2.93	14.36	10.92	9.91	8.98	7.30
	ICE BofA US High Yield TR USD	0.98	6.84	0.75	3.71	4.51	6.28	6.70
	Credit Suisse HY USD	1.17	6.68	0.13	3.02	4.17	6.03	6.53
	S&P/LSTA Leveraged Loan TR	1.49	4.66	(1.29)	0.89	3.02	3.74	4.34
	FTSE WGBI NonUS USD	(0.09)	6.04	6.12	4.36	3.20	4.13	1.63
	BBgBarc Gbl Agg Ex USD TR	0.29	5.80	5.38	4.58	2.84	3.80	1.80
REITs	FTSE Nareit All REITs TR	0.33	6.96	(11.52)	(9.15)	3.42	7.21	9.70
	Wilshire US REIT TR USD	0.39	7.18	(13.84)	(12.46)	1.57	5.04	8.85

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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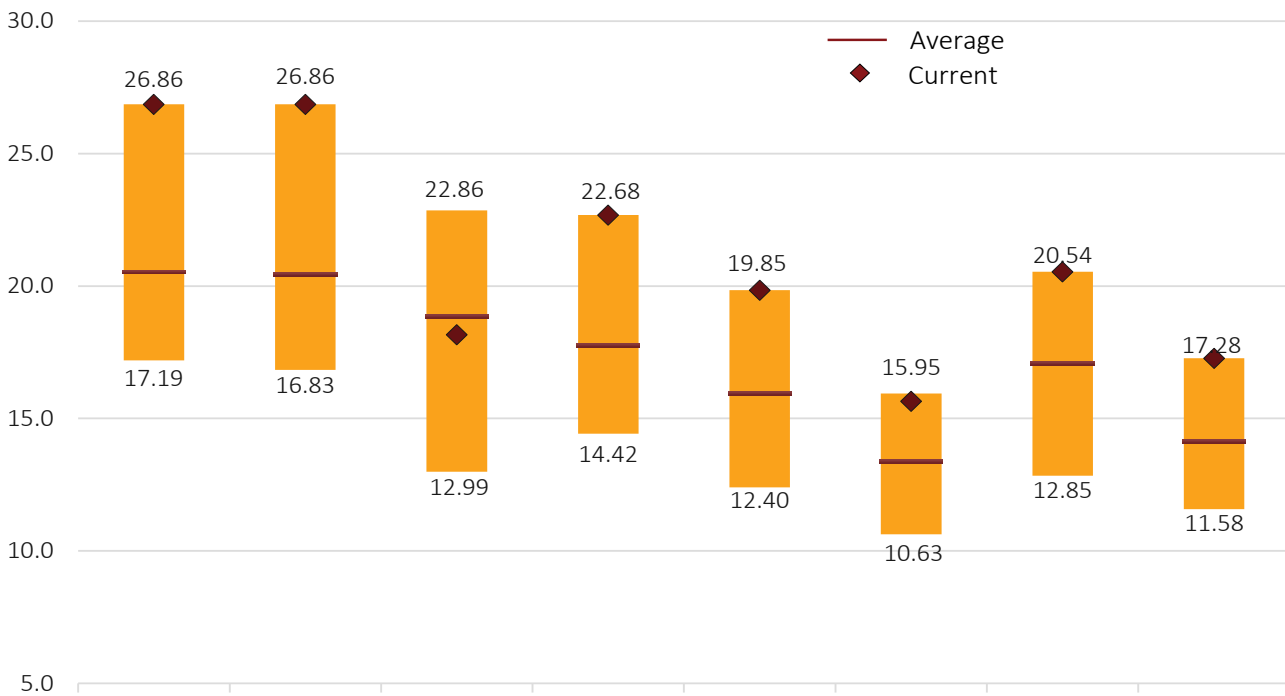
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S&P 500 Price Level



Source: Standard & Poors

Current P/E vs. Trailing 5-Year High, Low, Average

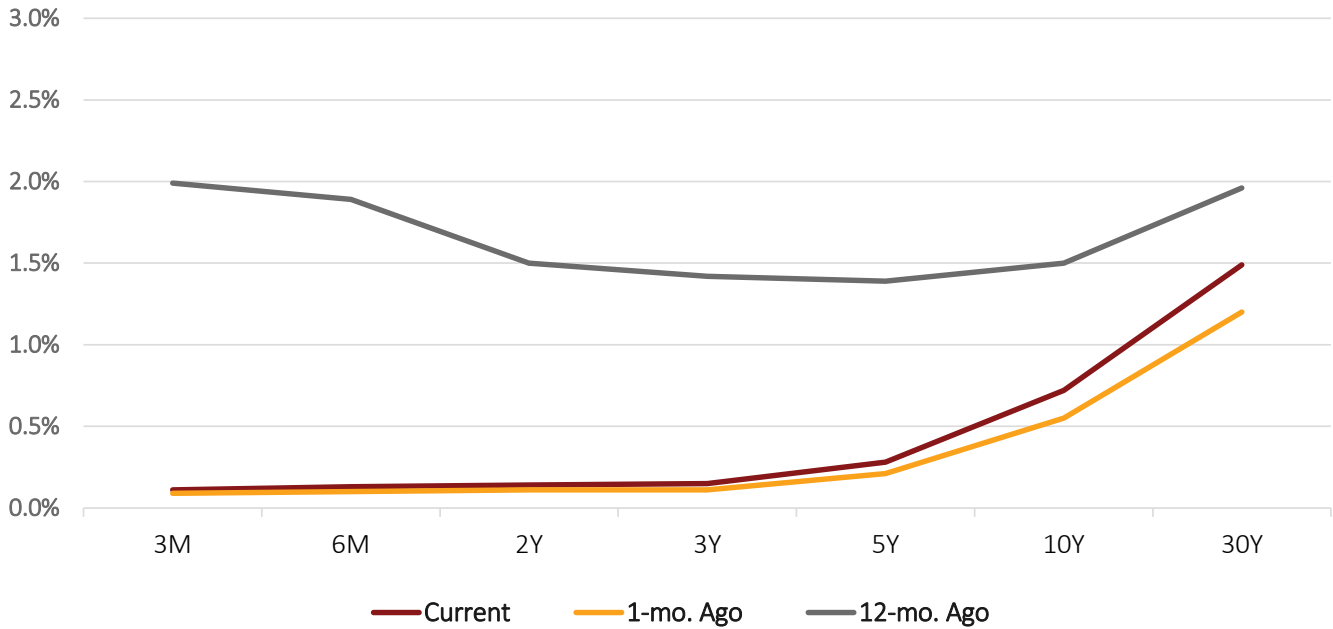


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Aug-20	Aug-20	Nov-17	Aug-20	Aug-20	Jul-20	Aug-20	Aug-20
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

U.S. Treasury Yield Curves

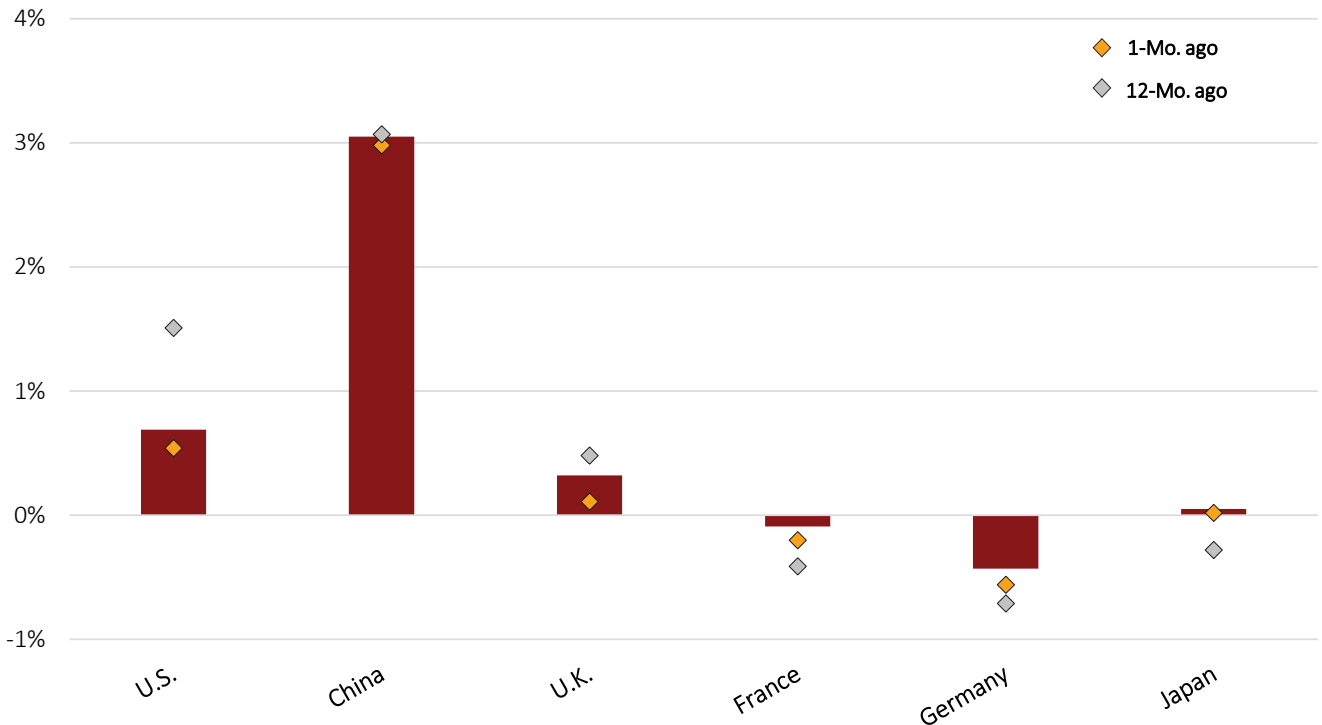
as of 8/31/2020



Source: Federal Reserve Bank of St. Louis, U.S. Department of the Treasury

10-Year Sovereign Yields

as of 8/31/2020 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal, Trading Economics

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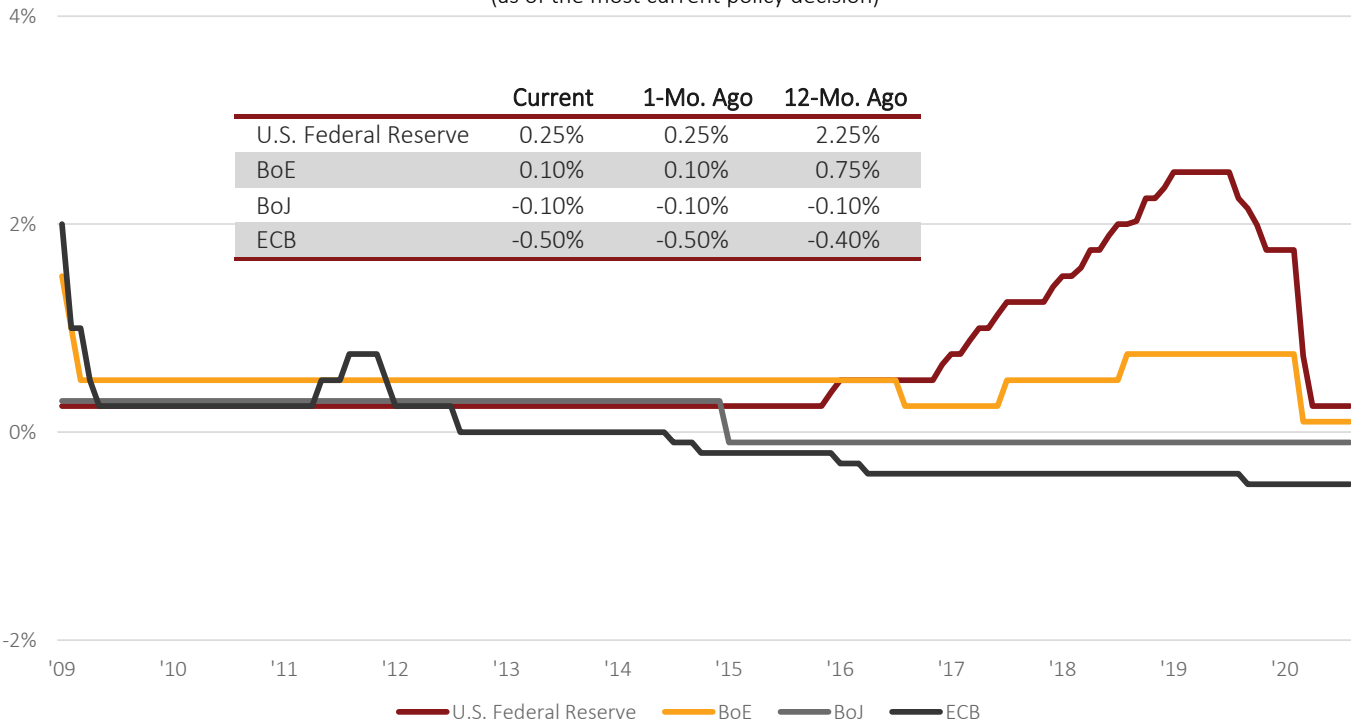
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Central Bank Policy Rates

(as of the most current policy decision)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trade Economics

Corporate Bond Average Spread (bps)

