

September 2020

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 9/30/2020

Global Overview

Global equity and fixed income markets turned negative during the month of September, primarily as a result of mixed economic news releases, renewed concerns regarding the potential for a second wave of coronavirus, and profit taking by investors. The only major markets earning a positive return included the three-month U.S. Treasury Bill with a return of 0.01%, bank loans with the S&P/LSTA Leveraged Loan Index earning a 0.63% return, and the MSCI Japan NR USD Index earning a 0.98% return for the month. Although global markets were largely negative during September, the majority of equity and fixed income markets posted positive returns for the third quarter.

U.S. Markets & Economy

September's U.S. economic releases showed mixed results, with a slower than expected decline in initial jobless claims and positive improvements in consumer confidence measures and inflation expectations for the next 12 months. U.S. initial jobless claims continued to report over 800,000 new claims each week in September, showing signs of a slowing labor market recovery. In addition, U.S. non-farm payrolls added only 661,000 jobs for the month of September, which is in stark contrast to the 1.5 million jobs added during the month of August. The largest job gains occurred in the leisure & hospitality, retail, and health care sectors. Although the job market is improving, only half of the 22 million jobs lost during the months of March and April have been recovered. The labor market will continue to be a focal point for the U.S. economy as Congress has been unable to reach a consensus on the terms of an additional COVID relief package to support the economy. The extra \$600 a week in unemployment benefits provided under the last stimulus package expired at the end of July raising concerns for the overall stability of the US economy as some consumers will struggle to pay for housing and other essential needs while portions of the economy remain crippled by the pandemic.

U.S. consumer sentiment was revised higher to 80.4 in September, the highest reading since March. Consumers continue to be largely optimistic about the economy as the unemployment rate declined to 7.9% from a high of 14.7% in April. On September 17, the Fed announced they would hold rates near zero until the inflation target averaged 2% over a longer period of time and the certainty of an economic recovery was more assured. This move suggests the Fed would be willing to allow the economy to temporarily overshoot the previous 2% inflation target.

In response to the economic data and the Fed's updated interest rate guidance, spreads widened during the month of September with investment grade spreads widening by 8 basis points and high yield spreads widening by 39 basis points. Given the favorable lending environment, investment grade corporate issuance reached a new record of \$164 billion, surpassing the previous record of \$158 billion set in 2019. High yield issuance also set at a record at \$47 billion in new issues, which were largely oversubscribed. Mortgage-backed securities underperformed U.S. Treasuries and other securitized credit securities as a result of increased prepayments as mortgage rates continued to decline.

The market decline in Large Cap Growth stocks led to a shift in the growth versus value stocks paradigm as investors started to take profits from fast-growing new economy stocks and shifted to purchasing stocks trading at lower valuations in the materials, transportation and utilities sectors. The largest beneficiaries of the shift to value stocks have been in industries that were able to grow revenue during the quarantine. These industries include home builders, utility companies and delivery services such as FedEx Corporation. The Russell 1000 Growth Index was down 4.71% for the month as compared to The Russell 1000 Value Index down only 2.46%. It is unknown whether this shift to value-oriented stocks is a temporary one or the start of a new trend. Market analysts who think this trend will continue

DeMarche Dashboard

Data and Commentary for Periods Ended 9/30/2020

September 2020

Page 2 of 6

believe the slow recovery of the economy combined with the arrival of a coronavirus vaccine could benefit value stocks as consumers will increase their spending going into 2021. Recent mutual fund flows also indicate an increased interest in value-oriented securities as net outflows from growth sector focused ETFs and growth-oriented mutual funds occurred during the month of September. In addition, Bank of America analysis of fund flows showed a \$1 billion outflow from technology funds and positive inflows into more value-oriented sectors during the end of September.

International Markets & Economy

The broad market developed non-U.S. and emerging markets indexes posted negative returns in the month of September, with the MSCI EAFE Index returning -2.6% and the MSCI Emerging Markets Index returning -1.6%. Positive economic developments reported during September included: several EU countries relaxing their Covid-19 containment measures, Eurozone Composite PMI reaching 50.4, retail sales rising 4.4% month over month during August, and manufacturing rising at the fastest pace in over two and half years. Unfortunately as a result of opening up their economies, some EU countries experienced a second wave of coronavirus infections which has caused concerns for the fragile economic recovery. The UK reported 23,000 new infections, bringing the total number infected above 500,000. France reported 12,400, and Spain posted 11,300.

Profit taking similar to that seen in the U.S. occurred in most Asian markets as investors weighed the extent of government monetary stimulus against the prospects of a continued economic recovery. The Chinese equity market pulled back in September largely due to increased tensions between the U.S. and China. China's consumer discretionary sector has been the one industry continuing to show resiliency during these uncertain times.

In the News

Many leading Private Equity firms have recently introduced funds that rely heavily on PIPE (Private Investment in Public Equity) deals versus traditional leveraged buyout strategies. PIPE deals have also emerged as a common component of the ongoing boom of interest in SPAC's (Special Purpose Acquisition Companies). Specifically, when a SPAC strikes a deal to combine with a private company, the transition into public markets is often accompanied by a significant PIPE investment to complement other capital raised, often through an IPO. These deals can be an attractive means to put private equity capital to work, especially when conventional private equity activity declines in times of increased uncertainty and challenging price discovery.

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	-31.40	-8.54	1.93	7.90	0.68	-	-	1.74
China	54.60	-3.67	4.51	3.80	3.16	6.82	7.13	2.68
Japan	-28.10	-7.32	-0.53	2.90	0.02	105.59	107.78	0.30
United Kingdom	-58.70	-13.96	4.97	4.10	0.23	1.27	1.24	1.11
Euro Area	-39.40	-9.10	4.50	7.90	0.16	1.16	1.09	1.18
Germany	-33.50	-8.76	1.67	4.40	-0.52	1.16	1.09	-0.09
France	-44.80	-14.07	5.22	6.90	-0.24	1.16	1.09	0.78
Italy	-42.20	-14.01	5.29	9.70	0.87	1.16	1.09	-0.13
Canada	-38.70	-9.43	1.53	10.20	0.57	1.34	1.33	0.30
India	-69.40	-7.28	8.07	6.70	6.01	74.57	71.19	5.33
Mexico	-52.70	-8.58	2.00	3.30	5.85	22.45	19.56	3.62
Brazil	-33.50	-9.10	2.40	13.80	7.44	5.56	4.18	2.31

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

DeMarche Dashboard

Data and Commentary for Periods Ended 9/30/2020

September 2020

Page 3 of 6

Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(3.45)	7.93	1.70	10.41	7.74	10.48	9.37
	BBgBarc US Agg Bond TR USD	(0.05)	0.62	6.79	6.98	5.24	4.18	3.64
	Russell 3000 TR USD	(3.64)	9.21	5.41	15.00	11.65	13.69	13.48
	DJ Industrial Average TR USD	(2.18)	8.22	(0.91)	5.70	9.98	14.02	12.69
	NASDAQ Composite PR USD	(5.16)	11.02	24.46	39.61	19.79	19.31	16.77
	MSCI EAFE NR USD	(2.60)	4.80	(7.09)	0.49	0.62	5.26	4.62
	FTSE Treasury Bill 3 Mon USD	0.01	0.03	0.56	1.02	1.65	1.16	0.61
	Bloomberg Commodity TR USD	(3.35)	9.07	(12.08)	(8.20)	(4.18)	(3.09)	(6.03)
Domestic Equities	S&P 500 TR USD	(3.80)	8.93	5.57	15.15	12.28	14.15	13.74
	S&P MidCap 400 TR	(3.25)	4.77	(8.62)	(2.16)	2.90	8.11	10.49
	S&P SmallCap 600 TR USD	(4.70)	3.17	(15.25)	(8.29)	(0.33)	7.20	10.57
	Russell 1000 TR USD	(3.65)	9.47	6.40	16.01	12.38	14.09	13.76
	Russell 1000 Growth TR USD	(4.71)	13.22	24.33	37.53	21.67	20.10	17.25
	Russell 1000 Value TR USD	(2.46)	5.59	(11.58)	(5.03)	2.63	7.66	9.95
	Russell Mid Cap TR USD	(1.95)	7.46	(2.35)	4.55	7.13	10.13	11.76
	Russell Mid Cap Growth TR USD	(1.40)	9.37	13.92	23.23	16.23	15.53	14.55
	Russell Mid Cap Value TR USD	(2.27)	6.40	(12.84)	(7.30)	0.82	6.38	9.71
	Russell 2000 TR USD	(3.34)	4.93	(8.69)	0.39	1.77	8.00	9.85
	Russell 2000 Growth TR USD	(2.14)	7.16	3.88	15.71	8.18	11.42	12.34
	Russell 2000 Value TR USD	(4.65)	2.56	(21.54)	(14.88)	(5.13)	4.11	7.09
International Equities	MSCI ACWI Ex USA NR USD	(2.46)	6.25	(5.44)	3.00	1.16	6.23	4.00
	MSCI EAFE NR USD	(2.60)	4.80	(7.09)	0.49	0.62	5.26	4.62
	MSCI EAFE Growth NR USD	(0.65)	8.43	4.60	13.44	7.07	9.22	7.00
	MSCI EAFE Value NR USD	(4.59)	1.19	(18.31)	(11.93)	(5.86)	1.14	2.10
	MSCI Japan NR USD	0.98	6.94	(0.68)	6.91	3.94	7.51	6.20
	MSCI AC Asia Ex Japan NR USD	(1.50)	10.66	5.41	17.83	4.90	10.60	5.38
	MSCI Europe NR USD	(3.33)	4.51	(8.85)	(0.79)	(0.61)	4.24	4.26
	MSCI United Kingdom NR USD	(4.98)	(0.23)	(23.44)	(15.82)	(5.61)	(0.42)	2.02
	MSCI EAFE Small Cap NR USD	(0.74)	10.25	(4.20)	6.84	1.40	7.37	7.33
MSCI EM NR USD	(1.60)	9.56	(1.16)	10.54	2.42	8.97	2.50	
Fixed Income	BBgBarc US Govt/Credit TR USD	(0.05)	0.78	8.04	8.03	5.86	4.66	3.87
	BBgBarc US Govt/Credit Interm TR USD	(0.01)	0.61	5.92	6.32	4.43	3.39	2.91
	BBgBarc US Govt/Credit Long TR USD	(0.14)	1.22	14.20	12.92	10.21	8.78	7.36
	ICE BofA US High Yield TR USD	(1.04)	4.71	(0.30)	2.30	3.83	6.61	6.28
	Credit Suisse HY USD	(0.76)	4.91	(0.62)	1.99	3.60	6.40	6.17
	S&P/LSTA Leveraged Loan TR	0.63	4.14	(0.66)	1.06	3.10	4.01	4.26
	FTSE WGBI NonUS USD	(0.42)	4.59	5.68	5.60	3.54	3.89	1.26
	BBgBarc Gbl Agg Ex USD TR	(0.58)	4.14	4.77	5.48	3.07	3.60	1.35
REITs	FTSE Nareit All REITs TR	(2.55)	1.46	(13.77)	(13.30)	2.73	6.26	8.95
	Wilshire US REIT TR USD	(3.37)	1.25	(16.74)	(17.69)	0.45	3.65	8.00

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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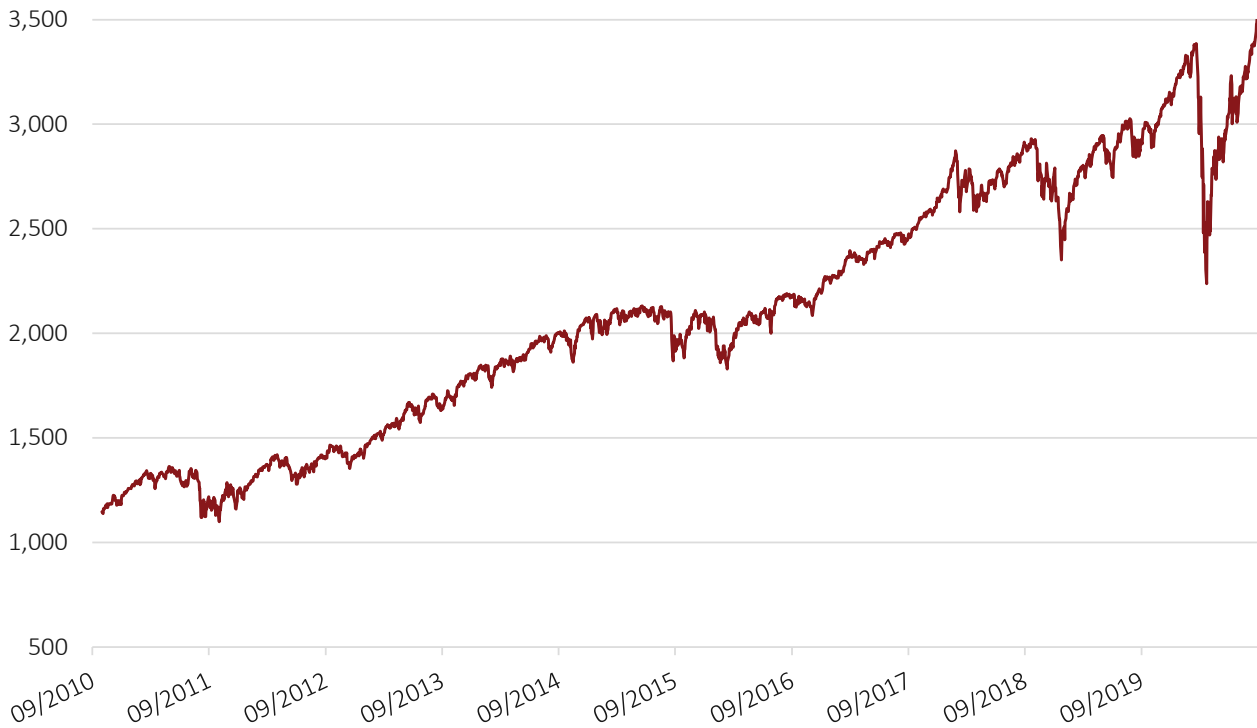
DeMarche Dashboard

Data and Commentary for Periods Ended 9/30/2020

September 2020

Page 4 of 6

S&P 500 Price Level



Source: Standard & Poors

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

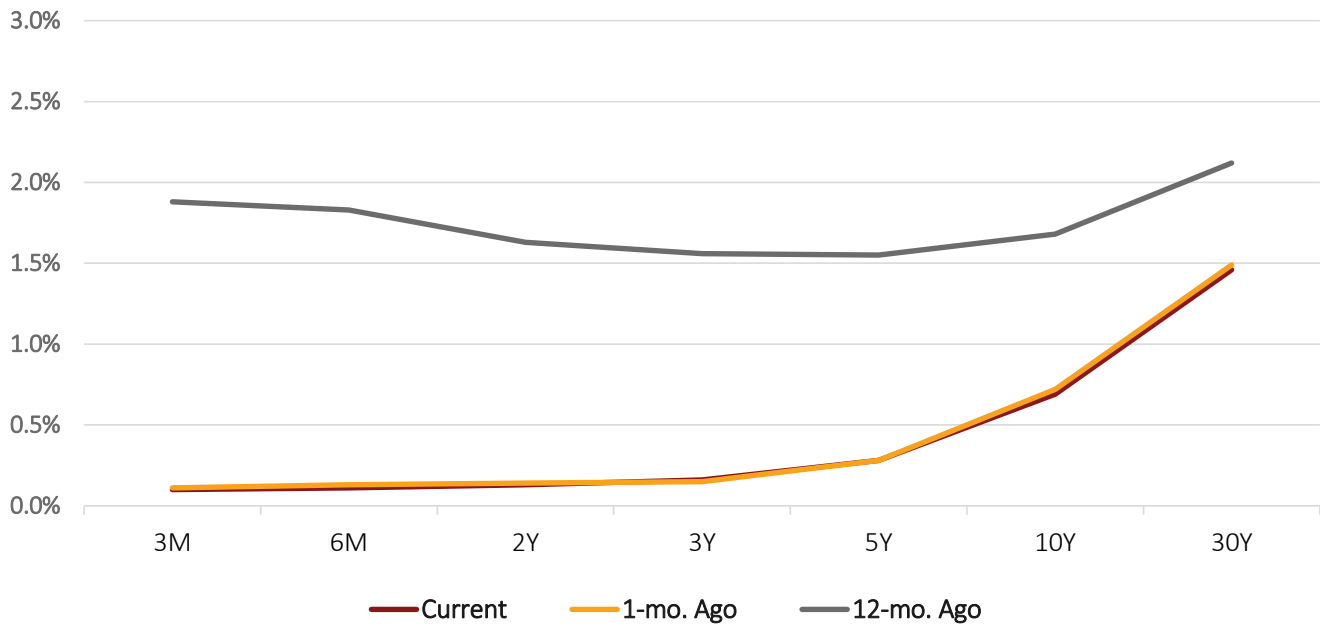


	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Aug-20	Aug-20	Nov-17	Aug-20	Sep-20	Sep-20	Sep-20	Sep-20
Low Month	Dec-18	Dec-18	Mar-20	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

U.S. Treasury Yield Curves

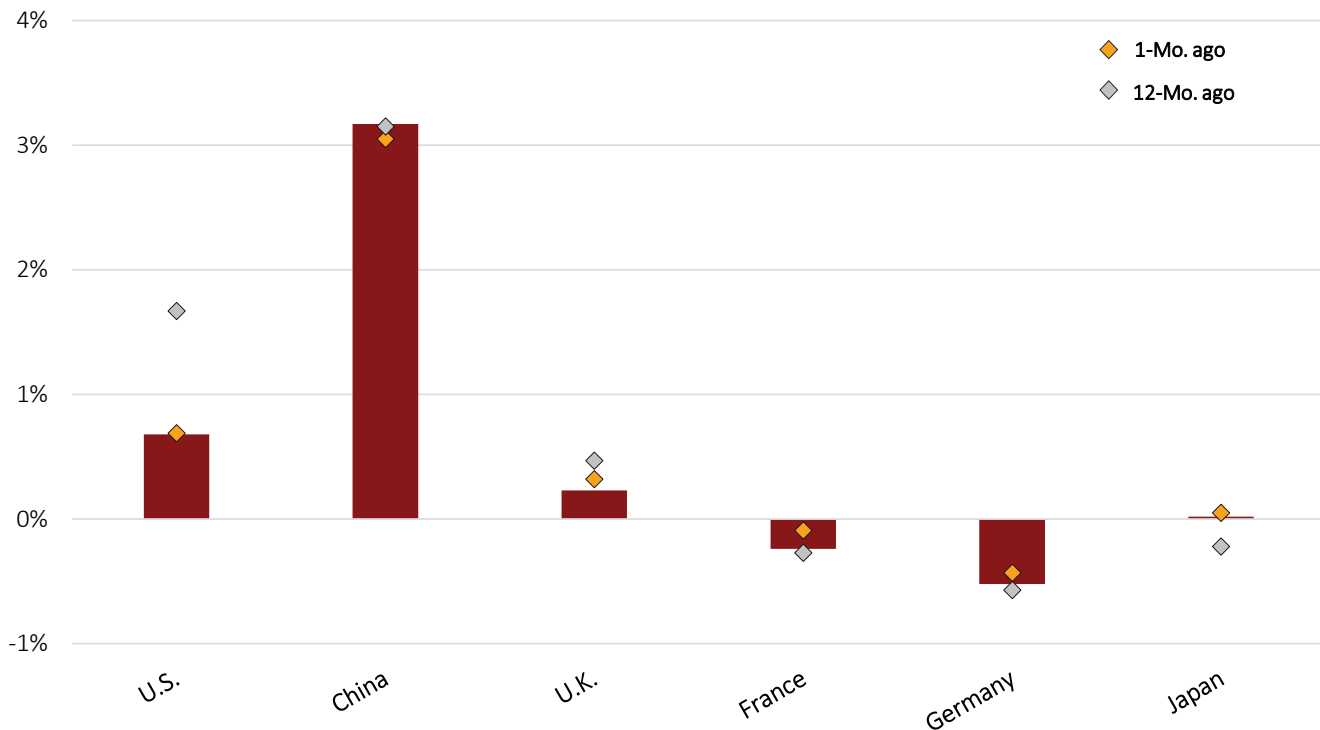
as of 9/30/2020



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

10-Year Sovereign Yields

as of 9/30/2020 (most recently available)



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

DeMarche Dashboard

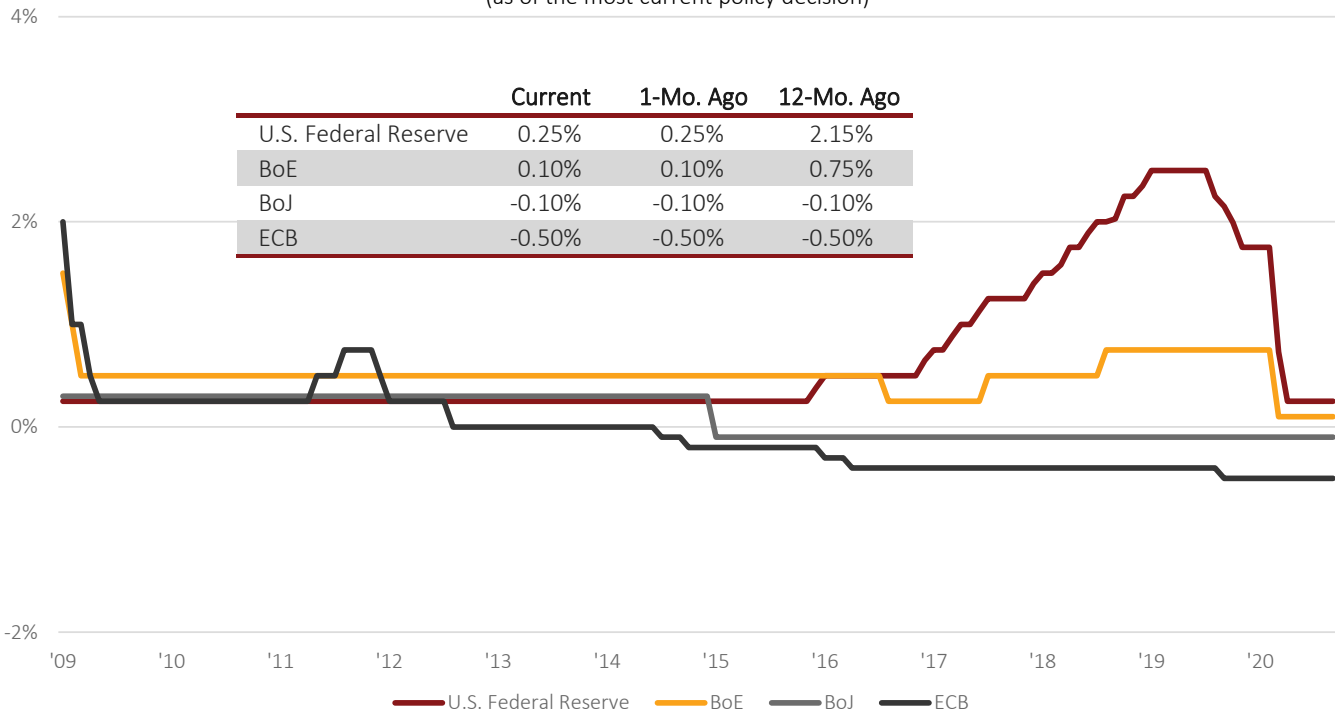
Data and Commentary for Periods Ended 9/30/2020

September 2020

Page 6 of 6

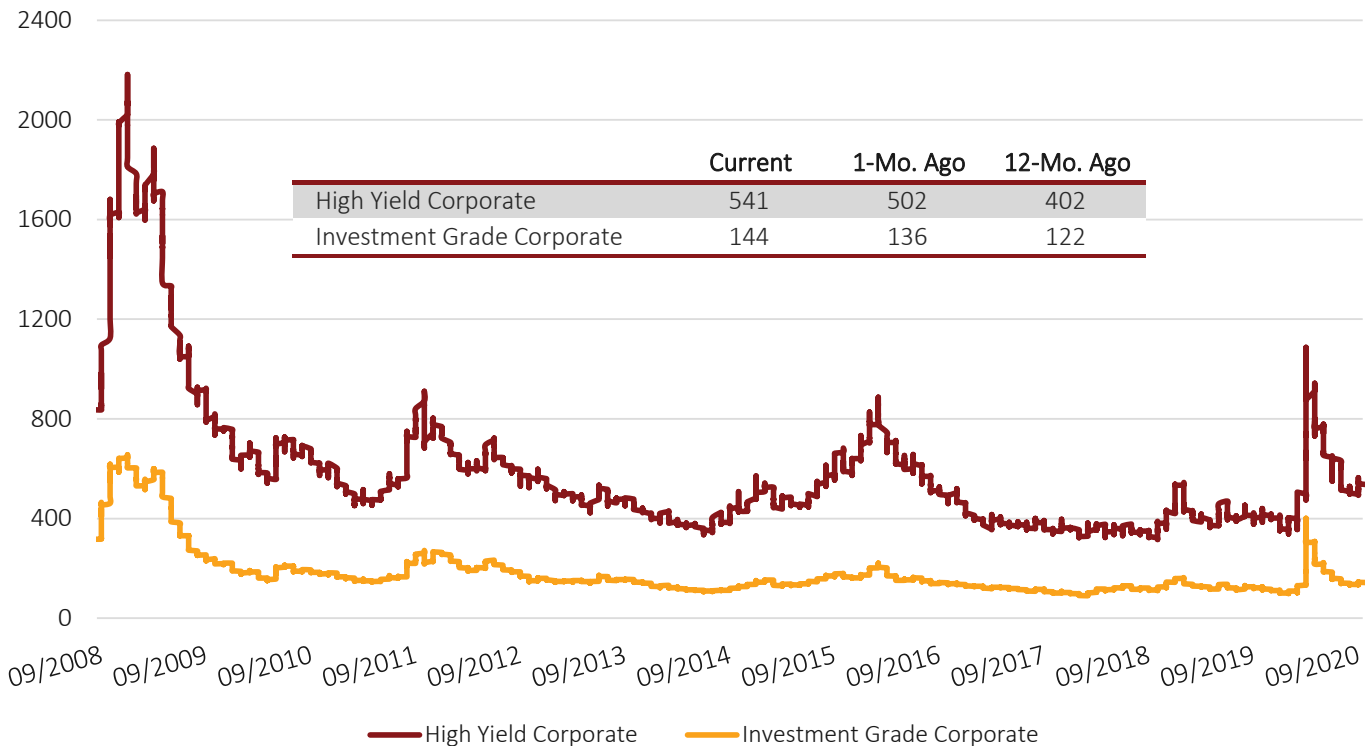
Central Bank Policy Rates

(as of the most current policy decision)



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

Corporate Bond Average Spread (bps)



Source: Bank of America