S&P 500 Climbs Over 7% in August, Attains New All-Time High

Dear «Informal Salutation»«Formal Salutation»:

We hope you and yours are well as we approach the end of summer, a time of change even during more normal times. As we all prepare for this busy period, we wanted to share with you a look back at the markets and economy over the past month of this record-breaking year.

The S&P 500 hit a new high on Aug. 18 for the first time since February, making up for the losses in March, and continued to climb through the month. Technology and large-cap companies led the way, continuing the "tale of two markets" hidden inside the mainstream indices, a familiar story throughout the COVID-19 era.

"August has historically been relatively weak for the broad-market S&P 500, but that didn't stop the equity index climbing over 7% for the month as the S&P 500 is on pace to post its best summer performance (+18% post-Memorial Day) since 1938," said Raymond James Chief Investment Officer Larry Adam, "despite headwinds from COVID-19, a heated election and a Congressional stalemate over a new round of stimulus."

The markets may have been buoyed by a stronger-than-expected earnings season, progress on COVID-19 therapeutics and vaccines, improving economic data and continued stimulus from the Federal Reserve.

There is also evidence of strength underneath the top performers, with gains being made in a fairly broad swath of the market, with second quarter corporate earnings finishing 23% above estimates, led by the performance of Consumer Discretionary stocks, Industrials, Health Care and Materials. "From the economic recovery to a possible vaccine, more records may occur by year-end. This year has proven to be tumultuous for the markets, but above all, we encourage investors to keep their long-term objectives and asset allocation in mind," Adam said.

The strength of the market since the struggles of March doesn't tell the full story. There are still concerns about coronavirus transmission in newly reopened schools, and market observers continue to keep an eye on unemployment figures and household earnings.

"The economic outlook continues to depend on the virus, the efforts to contain it and the degree of government support. Recent reports have painted a mixed picture of the economy," said Raymond James Chief Economist Scott Brown.

While Congressional lawmakers are not working against a specific deadline to pass a new round of economic stimulus, "we are watching a Sept. 30 government funding deadline as the next potential target for a legislative package, which could be tied to a must-pass bill in order to avoid a government shutdown," said Raymond James Washington Policy Analyst Ed Mills.

Monetary policy will remain accommodative. Federal Reserve Chairman Jerome Powell announced that the central bank has adopted a more tolerant approach to inflation. The Federal Reserve, recognizing that low unemployment significantly benefits low- and medium-income households, also made its employment objective "a broad-based and inclusive goal." As a consequence, short-term interest rates are expected to remain lower for longer.

The change is subtle, however, and not a big shift from how the Federal Reserve has conducted policy in recent years.

With everything going on we are likely to see more records being set in the days to come, but in the meantime, the major indices showed strong performance through the month, including the S&P 500's 7.01% gain and the NASDAQ continuing to lead with 9.59% added.

	12/31/19 Close	8/31/20 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	28,538.44	28,430.05	-108.39	-0.38%
NASDAQ	8,972.61	11,775.46	+2802.85	+31.24%
S&P 500	3,230.78	3,500.31	+269.53	+8.34%
MSCI EAFE	2,036.96	1,910.82	-126.14	-6.19%
Russell 2000	1,668.47	1,561.88	-106.59	-6.39%
Bloomberg Barclays Aggregate Bond	2,225.00	2,371.84	+146.84	+6.60%

Performance reflects price returns as of market close on Aug. 31, 2020, except for the MSCI EAFE and Bloomberg Barclays Aggregate Bond, which reflect the Aug. 28 closing values.

Here are some brief takeaways of the conditions and events we expect will shape the market as we enter into September.

Economy

- "Consumer spending rebounded sharply in May and June, from a steep decline in March and April, but the pace of improvement appears to have moderated," Brown said.
- The housing market is strong, aided by low mortgage rates and an expected longer-term shift in working from home. Sales of big-ticket items like cars and boats have benefited from recovery rebate checks and limited spending options available elsewhere, such as restaurants, tourism and live events.
- Service sector job losses have been concentrated in the lower end of the income scale. About half of these jobs have come back, but weekly unemployment claims remain historically high. "To maintain earnings, firms may resort to further job cuts in the months ahead, which would dampen the pace of the recovery," Brown said. "State and local governments are experiencing significant budget strains, which will likely also lead to job cuts."

Equities

- "COVID-19's massive fundamental impact is set to wane and provide easy comparisons in 2021, which should support broad-based sector improvement," said Joey Madere, senior portfolio strategist, Equity Portfolio & Technical Strategy.

- The S&P 500's price-to-earnings ratio is historically high, but not excessively so, Madere said. "We believe valuation can stay elevated given the unprecedented amount of global stimulus supporting the economic recovery, along with low interest rates and inflation."

International

- Despite poor second-quarter economic statistics, most international markets made some positive progress, European Strategist Chris Bailey said. Although, we still await conclusive news about ongoing discussions between the U.S. and China, and the U.K.'s attempts to forge a detailed Brexit deal in Europe.
- A number of major emerging markets outside of China continue to see a high number of new cases. However, northeast Asia and Europe have only seen localized second pandemic waves to date, although numerous travel restrictions and government economic support schemes remain in place.
- "August is always an unusual month for global investors. As the month progresses, not only does the global corporate earnings season start to peter out, but financial market liquidity also begins to drop. And while this has led to extreme financial market volatility in previous years, August 2020 will not particularly trouble the history books," Bailey noted.

Fixed Income

- "The bond market had a pretty active August," Chief Fixed Income Strategist Kevin Giddis tells us. "The 10-year yield fell to a new record close, as fear of a longer, lower recovery created a new 'wall of worry' for bondholders. But just as quickly as the yield fell, it rebounded upward six days later. As long as the Fed remains this accommodative and the U.S. economy struggles to find its 'footing,' Treasury rates continue to be range bound."

- Treasury notes and bonds continue to get a lot of attention from foreign central banks, domestic banks with low loan demand, and the Federal Reserve. Even though rates are near record lows, investors of other sovereign debt still see a positive sloping Treasury yield curve as an attractive alternative to many countries' negative yields.

- Taxable municipal bonds are likely a better long-term credit risk than similar corporate bonds, Giddis said.

Bottom line

- A remarkable run has erased much of the losses shown by the mainstream indices, with the S&P 500 surpassing its previous February high in August and continuing to rise. While technology companies' strength has been incredible – Apple is now valued at over $2 trillion, for example – the broad gains made elsewhere are worth considering.
- In the coming months, don't be surprised to see an increase in volatility leading up to the U.S. election, said Madere. "While emotions may run high, we would use weakness as a buying

> opportunity. While the market recovery has been remarkable, we remain positive for the long-term, bull-market opportunity that remains."

As we wait to see what September will bring, with optimism tempered by caution, we hope you and yours enjoy good health. Thank you again for the trust you have in us. If you have any questions or concerns, about the markets, your investments or your financial plan, please let us know.

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