CAMDEN CAPITAL

Market Insights

SEPTEMBER 2020 UPDATE

A LOOK BACK AT THE PRIOR MONTH

ECONOMY: RECOVERY CONTINUES

Economic data released in August reflected continued economic recovery in the United States as COVID-19 cases declined nationally, including in various hotspots in the South and West.

- **Conference Board's Leading Economic Index (LEI)** increased 1.4% in July, the third straight month of improvement, although the rate of recovery moderated. Gains were driven by growth in average weekly manufacturing hours, weekly jobless claims, and applications for building permits. We remain encouraged by the improvement despite the slower pace of increase and potential for the growth trajectory to level off in the near term.
- **Payrolls and Labor.** Nonfarm payrolls rose 1.4 million in August, according to the US Bureau of Labor Statistics, roughly in line with expectations but less than the 1.7 million jobs created in July. Over the past four months the economy has added back more than 10 million of the 22 million jobs lost in March and April. The unemployment rate fell 1.8 percentage points to 8.4% and is now more than 6 percentage points below the April peak. The progress is encouraging, but there is still a ways to go.
- **Inflation.** The core Consumer Price Index accelerated in July, rising 0.6% and registering the largest month-over-month increase since 1991. Producer prices, measured by the core Producer Price Index, rose 0.3% month over month, indicating a modest improvement in pricing power. While inflation expectations appear to be accelerating, reaching the Fed's 2% target may be a long process.
- **US Consumer.** The Conference Board's Consumer Confidence Index slipped for the second straight month in August, falling to the lowest level since 2014. Both the Present Situations and Expectations indexes declined, reflecting the rise in COVID-19 cases seen in July as well as the expiration of enhanced unemployment benefits on July 31. Retail sales growth moderated in July but remained positive, rising 1.2% with particularly strong growth in auto sales. Looking ahead, spending may moderate in the months ahead as stimulus has faded.
- **US Manufacturing** remains a bright spot in the recovery, where the Institute for Supply Management (ISM) Index for New Orders climbed to its highest level since 2014. Meanwhile, durable goods orders were notably higher in July, rising 11.2% and more than doubling Bloomberg's estimate of 4.8% on the back of increasing automobile demand. Manufacturing remains firmly in expansionary territory (>50) according to the ISM Purchasing Managers Index (PMI), which rose from 54.2 to 56 in August.
- **US Business.** Regional Fed surveys declined month over month, but they echoed the expansion in manufacturing conditions. Small business optimism also waned, as respondents to the survey have tempered their expectations of future economic conditions due to the ongoing battle against COVID-19. Capacity utilization continued its climb, however, rising from 68.6% to 70.6%.
- **Policy.** Negotiations for another pandemic relief bill stalled, with Republicans and Democrats reportedly nearly $1 trillion apart as September began. It is still widely expected that a deal, potentially in the $1–1.5 trillion range, will be reached over the next several weeks. Fed Chair Jerome Powell announced a major policy change of "average inflation targeting," meaning the Fed will be more willing to let inflation run above its 2% target before considering hiking rates. The Fed also has essentially ditched the Phillips curve, which states a robust job market causes inflation.

EQUITIES: BEST AUGUST SINCE 1984

Stocks continued their impressive rally in August with a strong 7.2% return for the S&P 500 Index, its fifth straight positive month, and setting several all-time highs along the way. The economic recovery remained on track even as the threat of COVID-19 lingers, while massive stimulus, optimism surrounding vaccine prospects, and a much better than feared earnings season helped support the rally. Over the very volatile first eight months of 2020, the S&P 500 has returned 9.7%.

Style/Capitalization

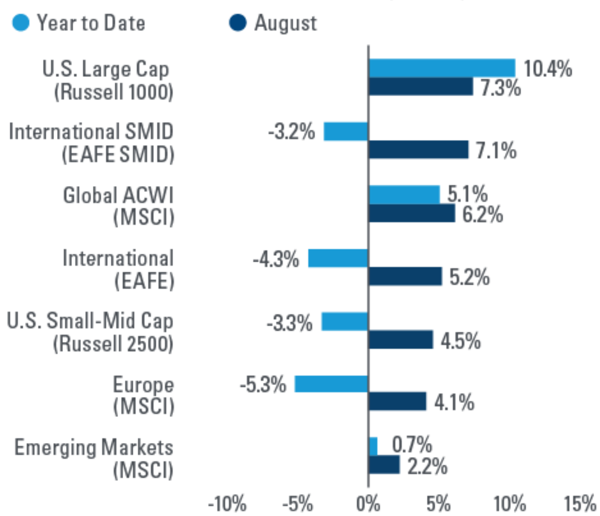
Large cap stocks outperformed **small caps** for the second straight month in August, primarily due to strength in the technology sector. **Mid cap stocks** lagged both large and small caps during the month. Boosted by technology, internet, and Tesla, the **growth style** outpaced **value** for the eleventh straight month. Year to date, growth has outperformed value by more than 40 percentage points.

Global Equities

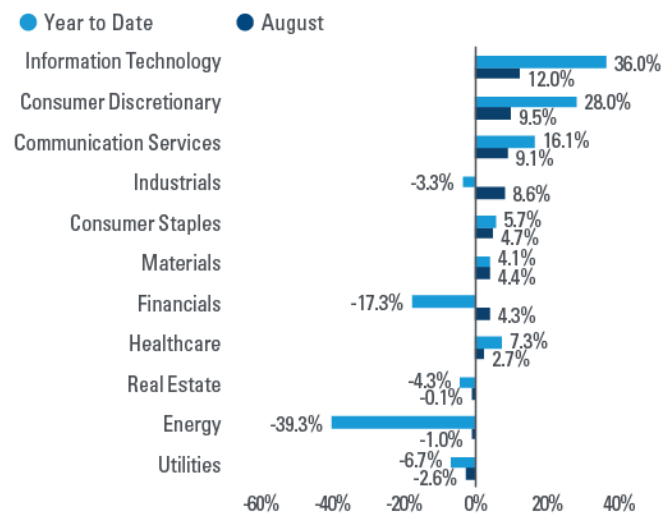
Neither **emerging markets** nor **international developed** equities could keep up with strong August gains in the **United States** despite a weaker US dollar. Developed international came closer, as the MSCI EAFE Index returned 5.2% for the month. Based on the MSCI country indexes, Japan was a strong performer, while the United Kingdom and Switzerland lagged. Year to date, the MSCI EAFE has lost 4.3%.

The MSCI Emerging Markets Index returned 2.2% during the month. **China** was a relatively strong performer as its economy has recovered from the pandemic as quickly as any major economy in the world. **Brazil** and **Taiwan** were among the worst performing emerging market countries. August's gains pushed the MSCI EM Index back into positive territory for the year with a 0.7% year-to-date return.

GLOBAL INDEX PERFORMANCE (Sorted by Monthly Return)



S&P 500 SECTOR PERFORMANCE (Sorted by Monthly Return)



Source: FactSet 08/31/20

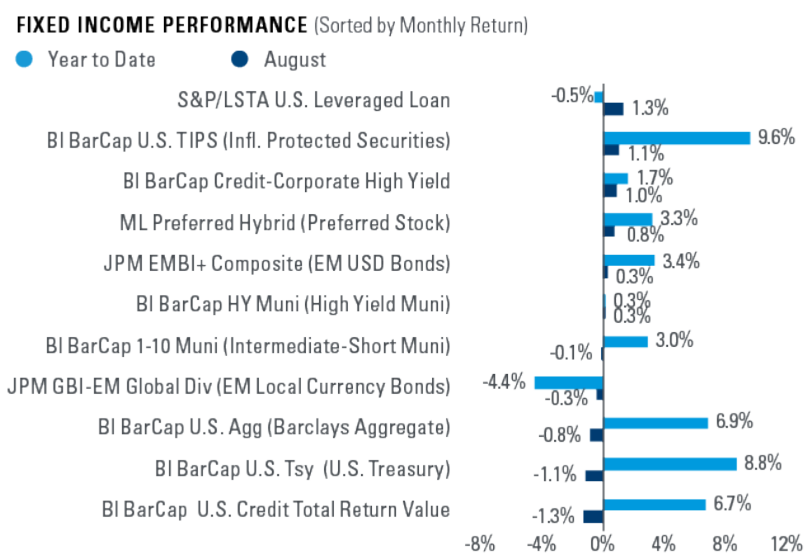
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

FIXED INCOME: MIXED PERFORMANCE

Treasury yields finally started to move higher in August as stocks rallied to new record highs. The **10-year Treasury yield** rose 16 basis points (0.16%) for the month to end at 0.70%. The Treasury yield curve steepened, driven by larger increases in rates on the long end of the yield curve.

Rising rates pressured returns in the investment-grade bond market, as shown in the Fixed Income Performance Table. The **Bloomberg Barclays US Aggregate Bond Index** (Agg) declined 0.81% on weakness from corporate bonds and Treasuries, bringing its year-to-date return to a still solid 6.85%. Fiscal and monetary stimulus may be incentivizing investors to consider **TIPS**, as they rallied more than 1% in August. Lower-quality bond sectors also delivered outperformance in fixed income, with **high yield** and **bank loans** topping the Bloomberg Barclays US Aggregate Bond Index during August. Higher-quality **municipal bonds** delivered a negative return for investors during the month, but they held up better than higher-quality taxable bonds; high-yield municipals eked out a modest, positive monthly return and outperformed high-quality municipals.



US Treasury Yields

Security	7/31/20	8/31/20	Change in Yield
3 Month	0.09	0.11	0.02
2 Year	0.11	0.14	0.03
5 Year	0.21	0.28	0.07
10 Year	0.55	0.72	0.17
30 Year	1.20	1.49	0.29

AAA Municipal Yields

Security	7/31/20	8/31/20	Change in Yield
2 Year	0.23	0.25	0.02
5 Year	0.48	0.51	0.03
10 Year	1.04	1.10	0.06
20 Year	1.51	1.61	0.10
30 Year	1.64	1.72	0.08

Source: FactSet 08/31/20

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Commodities: Solid Gains Overall

Commodities gained 6.8% in August as measured by the Bloomberg Commodities Index, supported by a weaker US dollar and risk-on market environment. The index remains down 9% year to date.

Commodities tied to improving economic conditions largely performed well, as industrial metals gained across the board with **nickel** leading the pack at 11.4%. **Gold** was little changed after its recent run-up, while **silver** sustained its positive momentum and climbed 17%. **Crude oil** rose slightly, held back by oversupply concerns even amid an incrementally improved demand outlook, while **natural gas** continued its bounce off its June lows, aided by seasonal effects, weather, and strong technical price momentum. Major soft commodities were slightly higher for the month as harvesting season approached.

IMPORTANT DISCLOSURE INFORMATION

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