CAMDEN CAPITAL

Market Insights

JULY 2020 IN REVIEW

August 2020 Update

A LOOK BACK AT THE PRIOR MONTH

ECONOMY: RECOVERY STARTS TO LEVEL OFF

Economic data released in July reflected a leveling off of economic momentum as COVID-19 cases continued to rise, and some reopening plans were rolled back.

- **Conference Board's Leading Economic Index (LEI)** increased 2% month over month in June, reflecting improvements in the economy due to reopening. Improving labor market conditions and stock prices were cited as the main contributors, while broader financial conditions and the consumer outlook on business conditions continued to point to a weak outlook. The improvement is encouraging, but the 8.6% year-over-year drop in the LEI suggests the US recovery remains in its early stages.
- **Payrolls and Labor.** Nonfarm payrolls rose 1.8 million in July, according to the US Bureau of Labor Statistics, beating expectations amid worries about COVID-19 cases and slowing economic momentum reflected in high-frequency data. In the last three months, the economy has added back more than 9 million of the 22 million jobs lost in March and April. The unemployment rate fell about one percentage point to 10.2%.
- **Inflation.** The core Consumer Price Index (CPI) tallied its first monthly increase since February, rising 0.2% in June, driven primarily by increases in apparel, medical care, and transportation services. Meanwhile, the Producer Price Index (PPI) declined 0.2% month over month, suggesting an increasing share of costs being shouldered by consumers.
- **US Consumer.** The Conference Board's Consumer Confidence Index decreased in July after increasing in June. While the Present Situation Index component improved, the Expectations Index—reflecting consumers' short-term outlooks—declined, particularly in states that saw higher COVID-19 cases. Retail sales beat expectations for a second consecutive month, rising 7.5% month over month and suggesting continued pent-up demand, though total sales remained below pre-pandemic levels.
- **US Manufacturing**. The Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) continued its progress from the month prior, rising to 54.2 and firmly in expansionary territory (>50). The new orders component of the index also showed marked improvement from the prior month. While the increase in manufacturing activity is a positive development, it is important to note that the service economy bore the brunt of the economic impact from COVID-19 and may likely take longer to recover.
- **US Business.** Several regional Fed surveys suggest that business sentiment improved moderately despite rising cases in some regions, but it remains well below February levels. Small business optimism ticked higher in June as many survey respondents noted a pickup in consumer spending, though uncertainty about reopening plans continued to limit plans for capital investment. Capacity utilization rebounded from the lowest level since 2009, rising to 68.6%, though still well below the expansion high seen in 2018.
- **Policy.** Negotiations for another pandemic relief bill are still underway in Congress following the expiration of supplemental unemployment benefits on July 31. It is widely expected that they will reach an agreement, potentially in the $1.5 trillion range, prior to the Senate's recess. The Fed has reiterated its commitment to use all policy tools to support the recovery; however, Fed Chair Jerome Powell has continued to emphasize the need for additional fiscal stimulus to support the economy.

EQUITIES: RALLY CONTINUED

The **S&P 500** continued to defy the skeptics, rallying 5.5% in July despite evidence that the economic recovery was losing steam as COVID-19 cases continued to increase in many parts of the country. Optimism around vaccine prospects, expectations of more stimulus, low and still-falling interest rates, and a good start to earnings season provided fuel for the bulls. Despite still-high unemployment and tremendous uncertainty, the S&P 500 returned 2.4% over the first seven months of the year.

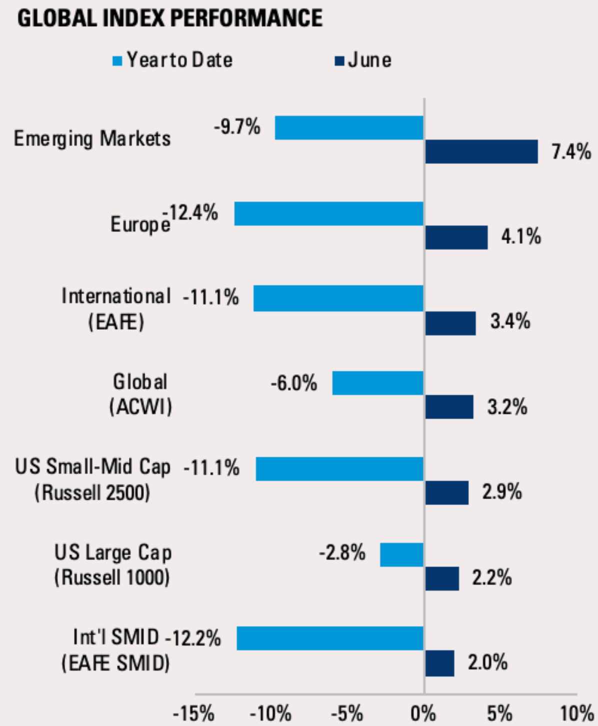
Style/Capitalization

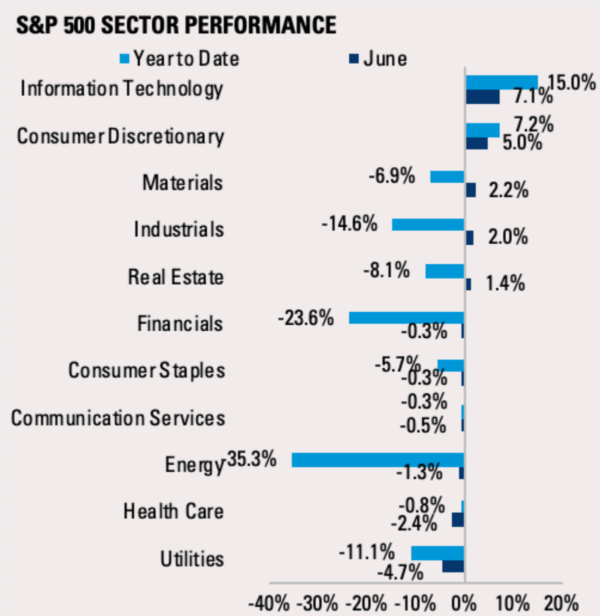
Large cap stocks broke their three-month losing streak vs. **small caps** in July primarily due to weakness in small cap financials and healthcare stocks. **Mid cap stocks** were able to keep up with large caps' solid advance. Boosted by technology and internet stocks, the **growth style** outpaced **value** for the tenth straight month. Energy's losses dragged down value.

Global Equities

Emerging market equities handily outpaced returns for **US** and **international developed** markets in July. Emerging market equities, which gained an impressive 9% based on the MSCI Emerging Markets Index, got a boost from relatively strong economic growth in China and outsized gains in the growth sectors, including technology and consumer discretionary. Strength was concentrated in Asia, notably in **China** and **Taiwan**.

Despite the boost from US dollar weakness, international developed equities gained just 2.4% for the month**,** based on the MSCI EAFE Index, lagging the S&P 500 and the emerging market indexes. Based on the MSCI EAFE country indexes, the biggest contributors to the gains included **Germany** and **Switzerland**, while weakness in **Japan** and the **United Kingdom** weighed on the index.





Source: FactSet 06/30/20

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.

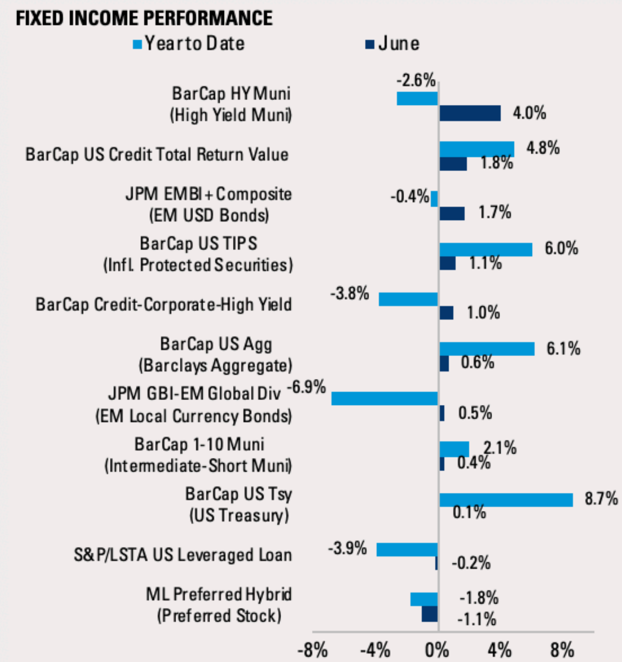
FIXED INCOME: CREDIT STRENGTH

While equities continued to deliver robust returns in July, Treasury yields declined. The **10-year Treasury yield** fell roughly 10 basis points (0.1%) for the month of July, ending at 0.54%. The Treasury yield curve flattened, driven by larger declines in rates on the long end of the yield curve.

The Fed's policy actions remained an important catalyst for a risk-on environment for bonds. Investors were attracted to spread opportunities in the **investment-grade bond** market, as shown in the Fixed Income Performance Table. The **Bloomberg Barclays US Aggregate Bond Index** (Agg) rose 1.5% on corporate bond strength, bringing its year-to-date return to a solid 7.7%. **Treasuries** underperformed in July but remained the strongest fixed income sector in 2020. Lower-quality bond sectors delivered outperformance in fixed income, with **high yield**, **emerging markets debt**, and **bank loans** outperforming the broad bond market benchmark during July. Higher-quality **municipal bonds** produced returns similar to higher-quality taxable bonds during July; high-yield municipals outpaced high-quality municipals.

Commodities: Currency Boost

Commodities gained 5.7% in July as measured by the Bloomberg Commodities Index, buoyed by a weaker US dollar and strong growth in China. The index remains down 14.8% year to date. Amid a slowing economic recovery and weaker dollar, commodities rose broadly in July. Precious metals in particular benefited from both factors as gold gained 8.6% and silver, which tends to exaggerate moves in gold, jumped 30%. Industrial metals also posted solid gains on the back of China's strong economic recovery. Crude oil posted more modest gains of 2.4%, as demand concerns and OPEC's decision to pull back production cuts offset currency benefits. Soft commodities generally rose, led by coffee, which was boosted by supply concerns related to COVID-19 outbreaks in key producing nations.



US Treasury Yields

Security	5/31/20	6/30/20	Change in Yield
3 Month	0.14	0.16	0.02
2 Year	0.16	0.16	0.00
5 Year	0.30	0.29	-0.01
10 Year	0.65	0.66	0.01
30 Year	1.41	1.41	0.00

AAA Municipal Yields

Security	5/31/20	6/30/20	Change in Yield
2 Year	0.37	0.39	0.02
5 Year	0.68	0.68	0.00
10 Year	1.29	1.26	-0.03
20 Year	1.79	1.75	-0.04
30 Year	1.91	1.88	-0.03

Source: FactSet 06/30/20

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 subjec t to availability and change in price.

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