The U.S. epidemic improved in August as the 7-day average for new infections fell to 41k, the lowest level since June, and hospitalizations declined. The traditional economic data and new alternative datasets released throughout August, however, continued to paint a mixed picture of current economic trends and the outlook remained clouded by uncertainty. On the one hand, the labor market didn’t lose as much steam in July as economists expected. Hiring slowed from 4.8MM in June to 1.8MM in July, better than the 1.2MM expected, pushing unemployment down more than forecast from 11.1% to 10.2%. Personal income grew more than expected as wages recovered with businesses opening back up, encouraging sign considering federal stimulus leveled off. As for spending, housing’s swift and anomalous v-shaped rebound remained afoot and the core retail sales categories held up better than expected in July. While the absolute level remains well below pre-pandemic levels, with the absolute level remains well below pre-pandemic levels, waiting for stimulus to kick in. The preliminary Markit PMIs showed activity picked up in the first half of August. On the other hand, however, there were some signs of the recovery leveling off after a stronger pace of improvement in May in June. Activity surveys from the regional Federal Reserve Banks reflected an uneven recovery across the country. Consumer confidence in the Conference Board’s August update tumbled unexpectedly to its lowest level since March and the University of Michigan index remains severely depressed despite a small gain. Potentially more of a concern, weekly initial jobless claims rose back above 1MM after falling below that level in early August for the first time since March. Continuing claims remained elevated above 14MM and more than 27MM Americans were receiving some form of unemployment insurance as of August 8th.

The record ranks of the unemployed highlight a key risk to the recovery. The CARES Act included a $600 federal bonus to the regular unemployment benefit offered by each state. That added benefit expired at the end of July as Congress failed to agree on another stimulus bill that could have extended the higher unemployment payment. As a result, the bridge built by fiscal policy makers, one that had actually pushed national income above its pre-pandemic levels even as unemployment surged, began to level off. President Trump pennied four executive actions amid the fiscal gridlock, including one that aimed to offset the cliff in unemployment benefits. However, the smaller $400 weekly bonus recommended by the President, which requires states to apply for the new aid and provide a quarter of the cost, has been sporadically enacted across the country. While fiscal officials failed to move forward with new stimulus, monetary officials took a major step forward to show they will continue to support the economy. The Fed wrapped up a year-and-a-half long review of its standing policy framework earlier than expected. The exercise was undertaken to better understand how monetary policy, which has traditionally relied on cutting rates to counter an economic slowdown, could be more effective in the new low-rate environment. With the past expansion showing that unemployment can reach historically low levels without spurring unwanted inflation, the Fed pledged to actively use its tools to address shortfalls from full employment and take a more relaxed, less preemptive approach on inflation. The new average inflation targeting approach seeks to achieve inflation that averages 2% over time as opposed to maintaining inflation consistently at 2%, and will allow inflation to run above 2% after periods of persistent low-side misses.

The market response to the Fed’s pledge to keep rates near zero until sustained inflation pressures and readings moderately above 2% appear was logical. Shorter Treasury yields held near record-low levels and fed funds futures priced in zero rates until at least the second half of 2023. Longer Treasury yields moved up with the 10-year yield adding 17.7 bps to 0.70%. The slope of the curve between the 2-year and 10-year maturities steepened to 57.2 bps, the widest level since early June. Prospects for a prolonged period of low real yields buffered the dollar to a more-than-2-year low but was a boon for gold which hit an all-time high. With rates frozen by the Fed’s policy shift, the corporate earnings season remaining successful chinned a low bar, and the domestic virus situation showing signs of improving, the S&P 500 set its first record high since February. The fifth consecutive monthly gain completed a more than 51% recovery from the March 23rd low, the sharpest for any comparable period since the 1930s.
Monthly Review
August 2020

Stocks Reached Record Levels as the U.S. Pandemic Improved and the Fed Committed to Keep Rates Low for Years

2-Year Treasury Note Yield - August 2020

5-Year Treasury Note Yield - August 2020

2-Year Treasury Note Yield - Last 12 Months

5-Year Treasury Note Yield - Last 12 Months

2-Year Treasury Note Yield - Last 5 Years

5-Year Treasury Note Yield - Last 5 Years

Monthly Review
August 2020
Stocks Reached Record Levels as the U.S. Pandemic Improved and the Fed Committed to Keep Rates Low for Years

Treasury Month-Over-Month

2-Year Treasury

5-Year Treasury

10-Year Treasury

Nonfarm Payrolls

Unemployment Rate

Existing Home Sales MoM

New Home Sales MoM

Core Retail Sales

Consumer Confidence

ISM Non-Manufacturing

ISM Manufacturing

Manufacturing Production

Core Capital Goods Orders

Trade Balance

Core PCE YoY

Global Stock Performance

Global Sovereign Debt Performance

Commodity Performance

Global Stock Performance

Global Sovereign Debt Performance

Commodity Performance

Treasury Notes Intraday Ranges: 52-Week Yield Range / Monthly Yield Range / Last Traded Yield

Treasury Month-Over-Month

Month-Over-Month Change in Treasury Yields

INTENDED FOR INSTITUTIONAL INVESTORS ONLY. The information included herein has been obtained from sources deemed reliable, but it is not in any way guaranteed, and it, together with any opinions expressed, is subject to change at any time. Any and all details offered in this publication are preliminary and are therefore subject to change at any time. This has been prepared for general information purposes only and does not consider the specific investment objectives, financial situation and particular needs of any individual or institution. This information is, by its very nature, incomplete and specifically lacks information critical to making final investment decisions. Investors should seek financial advice as to the appropriateness of investing in any securities or investment strategies mentioned or recommended. The accuracy of the financial projections is dependent on the occurrence of future events which cannot be assured; therefore, the actual results achieved during the projection period may vary from the projections. Interest rate swaps and derivatives are offered and sold via Vining Sparks Interest Rate Products, LLC. The firm may have positions, long or short, in any or all securities mentioned. Member FINRA/SIPC.