Monthly Market Commentary

As summer is coming to an end, we pray for some nice weather to round out summer! We hope that you can get out and enjoy some time with family and friends before the cold months arrive. Also, given the recent spike in Covid-19 cases, we hope that you can stay safe and healthy during this time.

Global markets have sent mixed signals over the last month. Risk off assets like treasuries and gold performed relatively well alongside risk on assets like equities. Typically, lower yields and demand for safe haven assets like gold tend to signal higher risk, slower economic growth, or both. However, this time around, the amount of monetary and fiscal stimulus appears to be distorting this relationship to an extent and markets seem to be taking reassurance of it. Having said that, we do not think it is prudent to ignore these signals as uncertainty remains elevated and markets usually are quick to correct such divergence. Further, the new spike in Covid-19 cases across the country has laid a pause to enthusiasm of a fast recovery that was expected for the economy. Post the initial bounce back of economic activity from the depressed levels in March, certain areas of the economy seem to be leveling off or starting to show signs of weakness. The latter being propelled by new restrictions levied in high risk areas, as well as, states postponing stages of their re-opening plans to reduce the spread of the virus.

On the fundamental side, second quarter earnings season for S&P 500 is slightly past the midway point with 267 companies reporting an aggregate sales and earnings growth of -10.4% and -37.3%, respectively. So far, Healthcare, Technology, Utilities, and Staples have reported relatively better numbers while Energy, Discretionary, Industrials, and Financials fared worst. Second quarter GDP was reported at 32.9% QoQ SAAR or 9.5% on a YoY basis, which is much worse than GDP in the Great Financial Crisis. We will continue to remain defensive in our positioning.

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