THE CAPITAL MARKETS

Presbyterian FOUNDATION

NEW COVENANT TRUST COMPANY

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The Dow Jones Industrial Average (DJIA) finished July at 26,428 up +2.38% for the month, and down -7.39% year-to-date. The S&P 500 closed July 31 at 3,271 up +5.51% for the month and +1.25% so far for the year. The NASDAQ Composite rose +6.82% in July, up +19.76% for the year. Small-company stocks as measured by the Russell 2000 ended July at 1,480, up +2.71% for the month, down -11.27% year-to-date. Consumer Cyclical (+9.19%) was the best performing sector in July.

"The S&P 500 climbed to 3,271, closing out July with a 5.5% gain for the month. The index has now rallied for four straight months, marking its largest four-month percentage gain since December 1998." (The Wall Street Journal, *Stocks Close Higher Amid Rally in Tech Shares*, by Anna Isaac, July 31, 2020)

The S&P 500 Approaches Record High as COVID-19 Persists

When the S&P 500 closed at its record high of 3,386 on February 19, 2020, unemployment was at a generational low of 3.5%, GDP had increased for 23 straight quarters, and news of a novel coronavirus outbreak in Wuhan, China was expected by many to have just a limited regional impact on the broader global economy. Now, five months later, the U.S. has suffered its worst quarterly economic contraction on record, over 30 million Americans are unemployed, and tragically over 700,000 deaths have been reported globally from the COVID-19 pandemic so far. Through this and despite persistent increases in cases through the summer and ongoing reversals of economic re-openings, the broad market index has continued a gradual rise, ending July at 3,271, just 3.4% from its all-time high.

Observers have pointed to a number of potential reasons for the disconnect between stock market valuations and real economic conditions. The primary driver, according to many, has been an unprecedented level of fiscal and monetary stimulus supporting the economy. Some economists estimate the total stimulus between Congress and the Federal Reserve was as high as $5 trillion in the 2nd quarter, compared to GDP output of around $4.85 trillion for the quarter. Many expect that moving forward, the economy could become much more sensitive to developments in the pandemic, as stimulus such as enhanced unemployment benefits or small business loans eventually expire or are reduced, while disruptions from the pandemic continue. At current levels, by many measures, stocks are as expensive as they have been since the 2000 tech bubble. Optimism surrounding vaccine development, an additional stimulus bill, and limited additional disruption from COVID restrictions appear priced in already. Negative news on these or other issues could drive stocks sharply lower. We are encouraging investors to expect volatility in the near term, to maintain liquidity for any meaningful cash needs, and to keep an appropriate multi-decade view if volatility does increase in the short-term.

'In normal times, spending by unemployed workers typically falls about 7%, because benefits only replace a fraction of their wages. Since Congress authorized the enhanced payments in March, spending among laid-off workers climbed 10% from before the pandemic ... "If we went to a world with no supplement, we'd see spending of the unemployed fall," said Peter Ganong, a University of Chicago economist. "Because there are so many unemployed people right now, that would have a really dramatic effect on the macroeconomy."' (The Wall Street Journal, *Lapse in Extra Unemployment Benefits to Hurt U.S. Recovery, Economists Say*, by Kate Davidson, Aug. 5, 2020)

GDP Contracts by Record Amount in Q2 2020

In 70 years of record-keeping, the second quarter (April-June) of 2020 saw the steepest decline in U.S. GDP ever, a -9.5% drop from the prior quarter, which is a -32.9% annualized contraction. Consumer spending, a core component of GDP in the U.S., fell -34.6%, while business spending fell at a -27% annualized rate. Federal government spending was the only component to contribute positively. While the numbers are stunning, most observers expected Q2, a period during which most of the country was under stay at home orders, to see historic contraction. The question now is how quickly and to what extent the economy can rebound moving forward, a question likely to be driven primarily by COVID-19 and how the nation handles the pandemic moving forward. Readers should expect there may be a 'best-ever' GDP quarter in the near-term. Keep in mind, however, the absolute change. If you see +50% growth following a -50% loss, you are still -25% below your beginning value.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 06/30/2020	CLOSE AS OF 07/31/2020	CHANGE PREVIOUS MONTH END	2020 YTD % CHANGE
Dow Jones Industrial Average	25,812.88	26,428.32	+615.44	-7.39%
S&P 500	3,100.29	3,271.12	+170.83	+1.25%
NASDAQ Composite	10,058.77	10,745.27	+686.50	+19.76%
RUSSELL 2000	1,441.37	1,480.43	+39.06	-11.27%
Fed Funds Rate	0.00%- 0.25%	0.00% - 0.25%	UNCHANGED	
2-Year Treasury	0.16%	0.11%	-0.05%	
10-Year Treasury	0.66%	0.55%	-0.11%	
Crude Oil $ per Barrel	$39.27	$40.27	+$1.00	-34.05%
Gold $ per Troy oz.	$1,800.50	$1,985.90	+$185.40	+30.39%
UK Pound in U.S. $	$1.2356US = 1£	$1.3125US = 1£	$ WEAKER	-0.92%
Euro in U.S. $	$1.1232US= 1€	$1.1825US= 1€	$ WEAKER	+5.35%
Canada $ per U.S. $	$1.362C = $1.00US	$1.3395C = $1.00US	$ WEAKER	+3.30%
Japan Yen per U.S. $	107.885¥=$1.00US	105.73¥=$1.00US	$ WEAKER	-2.71%

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