

# THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished August at 28,430 up +7.57% for the month, and down -0.38% year-to-date. The S&P 500 closed August 31 at 3,500, up +7.01% for the month and +8.34% so far for the year. The NASDAQ Composite rose +9.59% in August, up +31.24% for the year. Small-company stocks as measured by the Russell 2000 ended August at 1,562, up +5.50% for the month, down -6.39% year-to-date. Consumer Cyclical (+13.09%) was the best performing sector in August.

"U.S. stocks wrapped up their best month since April, continuing an extraordinary rally fueled by stimulus from Washington, signs of economic revival and progress toward a coronavirus vaccine." (The Wall Street Journal, *U.S. Stocks Post Biggest Monthly Gains Since April*, Alexander Osipovich, August 31, 2020)

## Market Moves Vertical in August - May Have Gotten Ahead of Itself

The S&P 500 closed out August with its fifth monthly gain in a row, up over +40% since April, the best five month period for markets since 1938. It was the best August for the stock market since 1986. By the end of the month, however, many observers were noting multiple signals flashing yellow that the market may be getting ahead of itself. Gains were driven, for example, primarily by large technology companies who have seen their valuations stretch higher and higher into difficult to justify levels. Market leader Apple was up over +21% for the month, an unusual move for an established company the size of Apple. Electric vehicle maker Tesla was up over +74% in just one month, leading some experienced analysts to hearken back to the late 1990's tech bubble when describing the current market environment. Because it's difficult, if not impossible, to consistently predict over long periods of time when certain sectors or companies will outperform - we encourage investors to remain diversified and balanced between many stocks across style, size, and sector of the economy. We can always help analyze and discuss your portfolio, it's diversification, and positioning across sector and style. Please don't hesitate to reach out to us if we can help.

At the time of this writing, markets have experienced some level of pull back from their highs, particularly among tech stocks, a move we see as healthy and necessary to a functioning market. The VIX volatility index, sometimes referred to as Wall Street's 'fear index', gradually rose through late August - suggesting many market participants expected volatility to pick up even as markets continued to reach new highs. Markets are expected to continue to balance positive news surrounding the development of a COVID-19 vaccine, a perceived commitment by the Federal Reserve to keep rates lower for longer, and an expectation for ongoing financial support through government relief spending with uncertainty surrounding the virus, Congress's ability to pass more relief, and a highly contentious and volatile political environment heading into a Presidential election. We encourage investors to expect choppy waters ahead, maintain cash liquidity for near-term needs, and to ensure equity risk levels are appropriate for your investment time horizon.

'This very well might go down as the week the stock market officially went crazy ... It's enough to make you want to bury your head in the sand and not look at the stock market at all. Which might not be bad advice. Unlike almost any other asset class, holding stocks for the long run increases the odds of making money in the market, observes BofA Securities strategist Savita Subramanian. You have a 46% chance of losing money if you hold the S&P 500 for just one day, but just a 6% of losing money if you hold on for 10 years. And if you miss out on the market's best days, you can turn great gains into paltry ones.' (Barron's, *The Trader*, by Ben Levisohn, Aug. 28, 2020)

## Employment Recovery Continues - Most Difficult Stage May Be Ahead

Employers added a better than expected 1.4 million jobs in August, pushing the headline unemployment rate down from 10.2% to 8.4%, now at levels closer to past major recessions than the unprecedented levels seen in April and May. The economy is still operating with around 11.5 million fewer jobs than in February. August saw significant job gains in the government and retail sectors of the labor market. Still some economists expect that job growth through the autumn could be uneven as some large companies such as airlines face decisions around layoffs, and demand at other businesses won't require pre-COVID employment levels. Many expect there will be more headwinds for the next few million jobs added, but the recovery should continue at a slower pace. Some expect the stronger than expected job numbers in August may have reduced the sense of urgency around an additional relief bill in Congress. This and many other factors will be closely watched in the months ahead.

## MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 07/31/2020	CLOSE AS OF 08/31/2020	CHANGE PREVIOUS MONTH END	2020 YTD % CHANGE
Dow Jones Industrial Average	26,428.32	28,430.05	+2,001.73	-0.38%
S&P 500	3,271.12	3,500.31	+229.19	+8.34%
NASDAQ Composite	10,745.27	11,775.46	+1,030.19	+31.24%
RUSSELL 2000	1,480.43	1,561.88	+81.45	-6.39%
Fed Funds Rate	0.00%- 0.25%	0.00% - 0.25%	UNCHANGED	
2-Year Treasury	0.11%	0.14%	+0.03%	
10-Year Treasury	0.55%	0.72%	+0.17%	
Crude Oil \$ per Barrel	\$40.27	\$42.61	+\$2.34	-30.22%
Gold \$ per Troy oz.	\$1,985.90	\$1,978.60	-\$7.30	+29.91%
UK Pound in U.S. \$	\$1.3125US = 1£	\$1.3390US = 1£	\$ WEAKER	+1.07%
Euro in U.S. \$	\$1.1825US = 1€	\$1.1960US = 1€	\$ WEAKER	+6.54%
Canada \$ per U.S. \$	\$1.3395C = \$1.00US	\$1.30295C = \$1.00US	\$ WEAKER	+0.48%
Japan Yen per U.S. \$	105.73¥ = \$1.00US	106.045¥ = \$1.00US	\$ STRONGER	-2.42%



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