

August 3, 2020

OBSERVATIONS

- Covid-19: Pfizer and Moderna will begin their respective phase 3 clinical trials with 30,000 subjects each. Preliminary efficacy data will be available in the late fall.
- SimplyWise Retirement Confidence Index – key respondent findings:
 - 72% now plan to work in retirement and 50% believe they will outlive retirement savings.
- After securing a first of its kind loan under the Defense Production Act, Eastman Kodak will begin producing active pharmaceutical ingredients. A small step towards reducing U.S. reliance on foreign supply chains for the drug industry. Kodak stock rallied from \$2 to nearly \$60 (at peak) following the announcement.¹
- **Expected:** GDP shrank at an annualized Q over Q rate of -32.9% - worst decline ever. The median expectation of 61 economists was for a decline of -34.5% (high estimate -40%, low estimate -25%).¹
- **Unexpected:** Continuing jobless claims (those who have filed and actively receive state unemployment benefits) rose to 17.02 million – higher than expectations (16.2 million).¹
- Tech titans Apple, Amazon, Alphabet, and Facebook all reported better than expected revenue results – helping to secure the 10th consecutive month of large growth stocks outperforming large value stocks.¹
- Amazon has now hired 175k employees (125k full-time) since the pandemic started. With more than 1 million employees, Amazon becomes the 2nd largest private employer in the U.S. behind Walmart.²
- The S&P 500 returned +5.64% during July, the best performing July since 2010.¹
- On 31-July, the 10 Year U.S. treasury yield fell to an all-time closing low of .53%.¹

EXPECTATIONS

- This Friday, 7-Aug, we get an update on the health of the U.S. labor market. The current unemployment rate is 11.1% and expectations are wide ranging reflecting the extreme uncertainty related to labor markets. The median estimate is for +1.510 million jobs added with the unemployment rate declining to 10.5%.¹
- Nearly 65% of the S&P 500 Q2 earnings reports are complete, 84% have beaten earnings estimates and have done so by an average of 21.8%. With 40% of companies not providing guidance we continue to expect significant surprises for not only the remainder of this quarter, but for Q3 as well. This week will see another 129 companies of the S&P 500 report earnings.^{3,4}

ONE MORE THOUGHT

As we move on from the heat of summer and into the Fall months, the economy and markets will face the daunting challenge of resuming “normal” activity in the face of the ongoing pandemic. Will schools reopen for in-classroom instruction? If they do reopen for face-to-face learning, will they remain open throughout the normal flu season? Will Congress pass additional stimulus? How will the November Presidential election impact the markets? While these questions are open to a great deal of uncertainty at the moment, the one high confidence judgement is that Clearstead expects market volatility to remain elevated over the coming months. This backdrop is challenging for the average investor. Studies have shown that most retail investors’ portfolios underperform their respective equity and bond benchmarks due to behavior biases—such as chasing returns, over-trading, or failure to move on from low-returning assets.⁵ For instance, Dalbar Research, which focuses on retail investors, has found that while the

¹ Bloomberg LP

² Geekwire, Bloomberg LP, Bianco Research

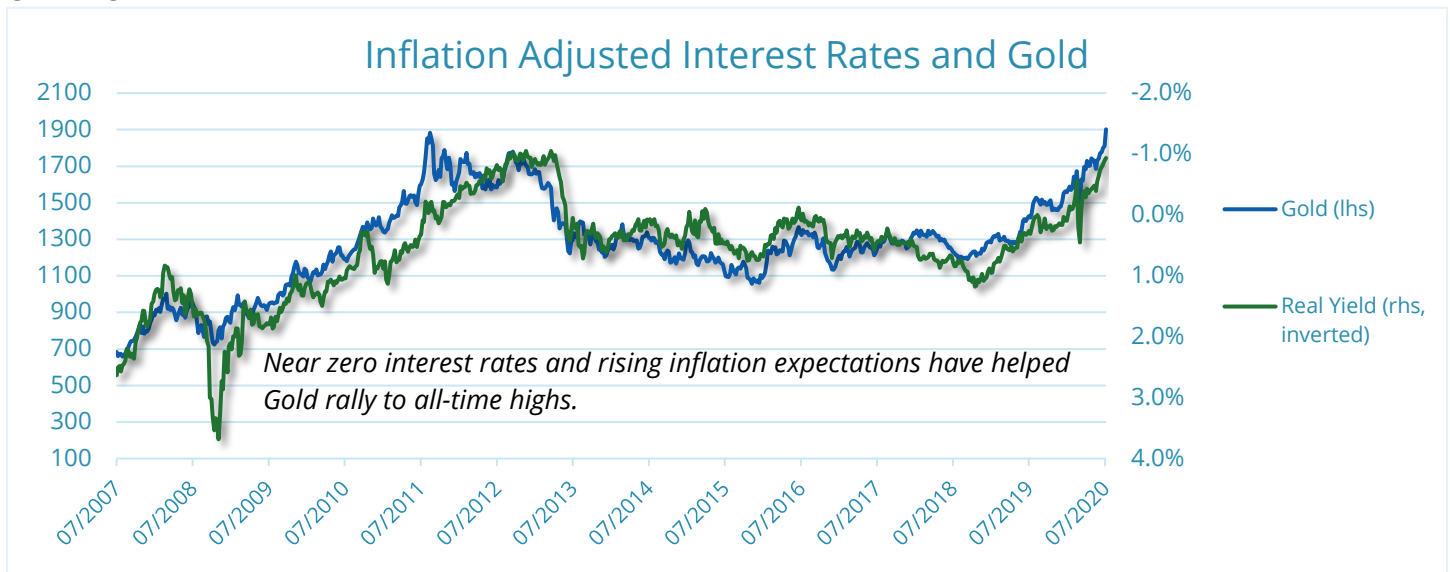
³ CNBC, Refinitiv

⁴ Factset Earnings Insight

⁵ “The Behavior of Individual Investors”, USC Davis/UC Berkeley, 2013

S&P 500 has returned 6.1% annualized over the period 1990 to 2019, the average U.S. Equity investor's equity portfolio has returned only 4.3% annualized.⁶ Similarly, over this period the U.S. Bloomberg Barclays Aggregate Bond Index has returned 5.0% annualized, but retail investors have garnered only 0.5% annualized from their bond holdings. Clearstead has highlighted the importance of staying invested (see Research Corner 20-March) during market turbulence, maintain rebalancing discipline, and re-allocating assets according to a structured process. Clearstead works tirelessly with our clients to create diversified portfolios that maximize return, mitigate investor bias, and balance risks. This coming Fall, these virtues could bear fruit for our clients.

CHART OF THE WEEK



Source: Bloomberg, Clearstead, Weekly data as of 27-July, Real Yield = Bloomberg Barclays US Inflation Linked 7-10 Years Avg Real Yield

Gold hit a record high last week following a significant rally year to date +30.2%⁷. The shiny metal has clearly benefited from a number of uncertainties related to geopolitical tensions, the pandemic, and ballooning budget deficits around the globe. Important to point out that Gold's rally started in earnest in January of 2019 (+54.1% since then⁷) and has also moved in lock step with rising inflation expectation.



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⁶ "Quantitative Analysis of Investor Behavior" Dalbar Research Inc, Mar-2020

⁷ Bloomberg LP, as of 31-July