PORTFOLIO DESIGN ADVISORS

Weekly Insight 9.28.20

Weekly Review

Although the NASDAQ managed to post a small gain, the broader S&P 500 fell for the fourth week in a row—the longest such streak in more than a year. The bulk of the indexes' weekly losses came on Wednesday, when the NASDAQ dropped 3.0% and the S&P 500 fell 2.4%.

U.S. Federal Reserve Chair Jerome Powell told Congress that the U.S. economy has a long way to go before it can fully recover from the coronavirus pandemic, and he said it needs further support. He noted that employment and overall economic activity remain well below pre-pandemic levels and said that the path ahead "continues to be highly uncertain."

Hopes for another congressional relief package were renewed on Thursday as U.S. House Speaker Nancy Pelosi changed course and resumed efforts to write a new measure that could serve as the basis for negotiations with the White House. Investors have been keeping a close eye on prospects for new legislation, given recent negative trends for the economic recovery.

A monthly labor market update due out on Friday is likely to be the week's most closely watched economic report, and it will be the final jobs report before the U.S. election. The new release will show whether September's recovery of nearly 1.4 million new jobs extended into October.

Returns

As of Date: 9/25/2020

	1 Week	QTD	YTD	1 Year
S&P 500	-0.61%	6.82%	3.53%	12.64%
Dow Jones Industrial Average	-1.75%	5.85%	-3.07%	3.18%
S&P SmallCap 600	-4.07%	0.66%	-17.31%	-11.85%
MSCI EAFE	-4.21%	3.23%	-8.48%	-0.82%
MSCI Emerging Markets	-4.42%	7.20%	-3.29%	7.72%
Barclays US Agg Bond	-0.09%	0.66%	6.83%	7.43%
Barclays US Corp High Yield	-1.53%	3.84%	-0.11%	2.33%
Bloomberg Commodity	-3.12%	8.82%	-12.29%	-9.70%
S&P GSCI Crude Oil Spot	-2.59%	2.50%	-34.08%	-28.75%
S&P GSCI Gold Spot	-4.88%	3.65%	22.53%	23.41%
Morningstar Conservative Index	-0.77%	1.91%	4.86%	7.12%
Morningstar Moderate Index	-1.72%	3.67%	1.23%	6.59%
Morningstar Aggressive Index	-2.56%	5.18%	-3.84%	3.84%
Russell 1000 TR USD	-0.61%	7.33%	4.31%	13.40%

This Week in Markets

Monday: No major reports scheduled

Tuesday: S&P/Case-Shiller 20-City Composite Home Price Index; Consumer Confidence Index, The Conference Board

Wednesday: ADP National Employment Report, ADP; Second-quarter GDP, third estimate, U.S. Bureau of Economic Analysis; Construction spending, U.S. Census Bureau; Pending home sales, National Association of Realtors

Thursday: Weekly unemployment claims, U.S. Department of Labor; Institute for Supply Management's manufacturing index; Personal income and consumer spending, U.S. Federal Reserve

Friday: Jobs and unemployment, U.S. Bureau of Labor Statistics

Themes, Risks, & Opportunities

2Q20 real GDP was revised slightly upwards from a drop of -32.9% to -31.7% q/q at a seasonally adjusted annual rate, following a 5.0% q/q decline in 1Q20. The second quarter should mark the end of a severe but short recession, with a peak to trough decline of 10.2% in real terms.

The U.S. recession and recovery could be at a slower pace than markets are anticipating.

Political headlines may foment market volatility.

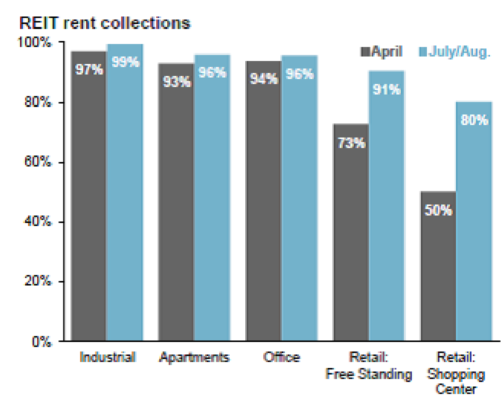
Fixed income investors should move up in quality, and look to core bonds for portfolio ballast.

With 461 companies having reported (91.9% of market cap), current estimatea for 2Q20 earnings are $26.10 with EPS declining 35.0% y/y.

Thought of the Week

The sudden need for social distancing in response to the pandemic has accelerated longer-term trends in commercial real estate: stores closed, warehouses rapidly processed inventory as online shopping increased, employees began working from home and many Americans struggled to pay rent after historic job losses. Yet, rent collections in many REIT sectors remained stable. Despite remote working, office rent collections remained strong, and have modestly improved since April. Office contracts are often long term, and as employees slowly come back to work, having ample office space is necessary to maintain social distancing. Collections on apartments also remained surprisingly strong, but could see pressure ahead with the expiration of eviction freezes and extra unemployment benefits. Retail was the hardest hit property sector, with collections falling to 73% for free standing stores, and just 50% for shopping centers in April. However, both of these areas rebounded, with collection rates of 91% and 80%, respectively, in August. Industrial real estate fared the best, with collections barely budging, as warehouses processed shipments from increased online orders. Going forward, we anticipate many of these trends, like the shift from brick-and-mortar retail to e-commerce and the rise of telecommuting, will continue. This underscores our sector preferences in REITs for industrial property, including warehousing, and data centers over more pandemic-vulnerable areas like retail, office and lodging.

CHART OF THE WEEK



Weekly Insight Disclosures

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