Cliff Notes
Weekly Capital Market Update

Cliff Notes – Starship S&P Blasts Off

Source: teslarati.com

- Elon Musk's SpaceX had the 1st private, human space launch ever last week, with NASA astronauts Doug Hurley and Bob Behnken taking the S&P500 with them apparently.
- Stocks rallied hugely Friday on an unexpected decline in US unemployment, which despite some data grumbling, clearly showed employment improvement.
- The stocks in sectors pummeled the worst so far this year (leisure, hospitality, energy, gaming) all saw eye-popping gains during the week. Real estate, small cap stocks, and commodity plays rallied too.
- Measures to contain the virus are gradually being eased in many developed economies.
- May's data suggested the worst of the contraction may be behind us, but we see a bumpy restart in coming months.
- The big question remains: how successful policy execution will be in bridging cash flow constraints and preventing permanent damages to the economy – and what the risk is of policy fatigue in coming months.
- Markets became wary of rising U.S. China tensions – which should pose both an election issue as well as long-term strategic concern.
- Coming off his recent success, Elon told SpaceX employees that their 100-person Starship is now the company's main focus –next stop: moon settlements, trips to Mars, and a new age of space exploration – replete with electric Tesla moon cars. Now if he would only fix his baby's name….

Weekly Index Returns & Commentary (ending 06.08.2020)

WEEK ENDING JUNE 5, 2020 (CUMULATIVE TOTAL RETURNS)

Equities[1]	Close	Week	YTD	1-Year
S&P 500	3,194	▲ 4.96%	▼ -0.3%	▲ 15.3%
DJIA	27,111	▲ 6.85%	▼ -3.9%	▲ 8.8%
NASDAQ	9,814	▲ 3.44%	▲ 9.9%	▲ 30.9%
Foreign Stocks		▲ 7.07%	▼ -7.9%	▲ 2.5%
Emerging Markets		▲ 7.88%	▼ -9.3%	▲ 2.8%

Top Three S&P 500 Equity Sectors[1]	YTD
Information Technology	▲ 11.2%
Consumer Discretionary	▲ 7.0%
Communication Services	▲ 2.6%

Bottom Three S&P 500 Equity Sectors[1]	YTD
Energy	▼ -24.4%
Financials	▼ -14.0%
Industrials	▼ -7.5%

Bonds[2]	Week	YTD	1-Year	Yield
10-Yr. Treasury[3]	▼ -1.99%	▲ 8.4%	▲ 11.2%	0.91%
US Bonds	▼ -0.49%	▲ 5.0%	▲ 8.8%	1.43%
Global Bonds	▲ 0.02%	▲ 2.1%	▲ 4.9%	1.08%
Munis[4]	▲ 0.00%	▲ 1.3%	▲ 3.9%	1.63%

Market Indicators[5]		As of
Fed Funds Target	0.25%	06/05/20
Inflation (Core CPI)	1.4%	04/30/20
Unemployment	13.3%	05/31/20
GDP	-5.0%	03/31/20

Weekly Major Asset Class Commentary

Global Equities

The S&P 500 index closed above the 3000 price level every day this past week for the first time since bottoming on March 23. Economic optimism around stabilizing manufacturing data, better-than-expected unemployment figures, and early signs of recovery in cyclical industries led the S&P 500 index to advance 4.96% over the week.

Commodities

Crude prices globally have seen six consecutive weeks of gains. A recovery in fuel demand largely driven by improved Chinese imports and production cuts have lifted both WTI and Brent oil prices above $39 per barrel, which reflected an increase of more than 11% across the benchmarks. Ahead of the OPEC meeting, investors are anticipating production cut extensions through July.

Bonds

Government yields jumped higher on the back of positive risk sentiment last week. In the US, the 10-year Treasury yield rose 25bps to 0.90% after a stronger-than-expected jobs report. In Germany and the UK, momentum towards reopening helped boost the 10-year German Bund and UK Gilt yields to -0.28% and 0.35%, respectively. In the corporate debt market, spreads continued to tighten.

FX

The US dollar index fell -1.45% this past week as investors looked to a global recovery. The euro had a strong week as expansion of the European Central Bank’s PEPP and move towards fiscal consolidation boosted the currency by 1.77% against the US dollar.

(Source: GS Weekly).

Market Commentary

The U.S. stock market has almost fully recovered from its bear market decline. Since the bottom on March 23, the S&P 500 and NASDAQ have risen 43% while the Dow has jumped 46%. The S&P 500 is now only down about 1% year-to-date and is about 5% below its February high. Although it's important to not overly focus on any short-term period, recent market performance has much to say about the continuing recovery and long-term investing outcomes.

International markets have recovered as well but to a lesser degree. Although developed and emerging market stocks have each rebounded 32% since the bottom, they are still down 10% year-to-date. Overall, the MSCI All Country World Index has recovered 40% and has lost less than 5% year-to-date, thanks to U.S. stocks. While valuations are difficult to gauge at this stage, international markets continue to be much cheaper than those in the U.S., making them attractive.

Why have all major stock markets recovered so swiftly in the past two-and-a-half months? First, financial markets are forward-looking and anticipate important events. This doesn't mean that markets always get it right - far from it. However, it does mean that improvements in the public health situation are often incorporated into market prices immediately. So far, the market has behaved consistently with improvements in COVID-19 trends and the reopening of the economy. It helps that one of the "best case" scenarios - relative to what was feared at the height of the crisis - has been achieved.

Second, government stimulus measures no doubt helped to keep individuals and businesses on life support while in quarantine. The $2 trillion CARES Act, including Paycheck Protection Program

loans for businesses and stimulus checks for individuals, helped to pay some bills, although more could always have been done. The Fed, by making emergency rate cuts to zero percent in March and by dramatically expanding its balance sheet, helped to keep the financial system functioning smoothly.

Of course, government stimulus cannot solve all of the economy's problems and there will no doubt be long-lasting consequences to this spending. The most important issue now is for the economy to stabilize in a safe way.

Thus, the third point is that there is optimism that the economic shutdown due to the novel coronavirus was a one-time event. Current Wall Street earnings estimates suggest that 2020 is a "lost year" for profit growth, with the gains that were expected this year to occur in 2021. There is also optimism that further outbreaks of COVID-19 can be handled with smaller-scale public health measures, including more limited geographically-focused shutdowns. Finally, there are signs of a possible vaccine or treatment, although this is highly uncertain at this stage.

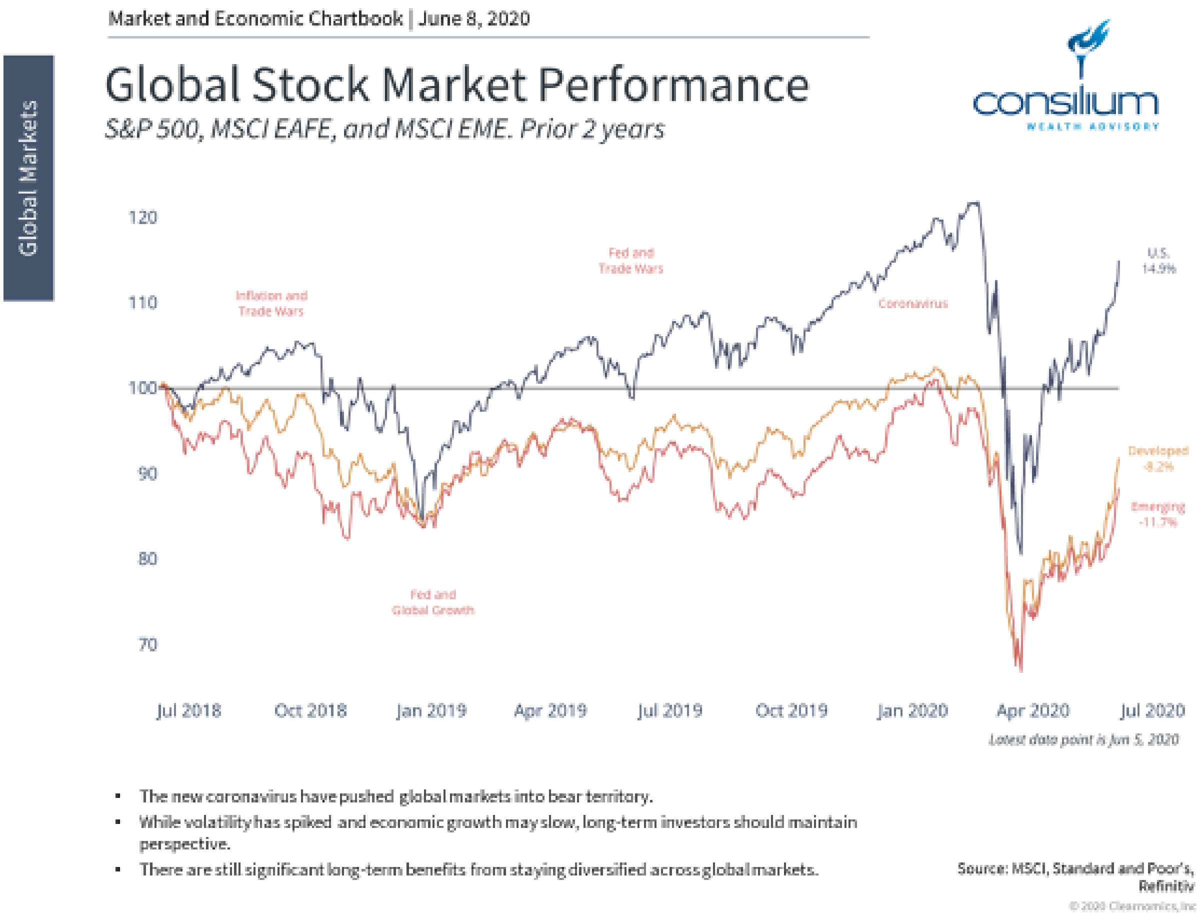
Despite the recent rebound in markets, it's important for investors to maintain discipline since the country is not completely out of the woods yet. The novel coronavirus may be contained, but it is far from eliminated. Many major cities are now reopened but it may take time for business activity and hiring to resume. These wounds may take time to heal and there may be scars that affect how business operators and managers behave. For instance, decisions around office space, the size of workforces, willingness to raise debt capital, and the efforts to restore productivity in the long run are all significant uncertainties.

Long-term investing is about staying disciplined and diversified through thick and thin. Those that have been able to do so, with an eye toward achieving their financial goals, have been rewarded throughout historic market crises. Below are three charts that help to put recent market performance in perspective.

1. U.S. stocks have rebounded since March

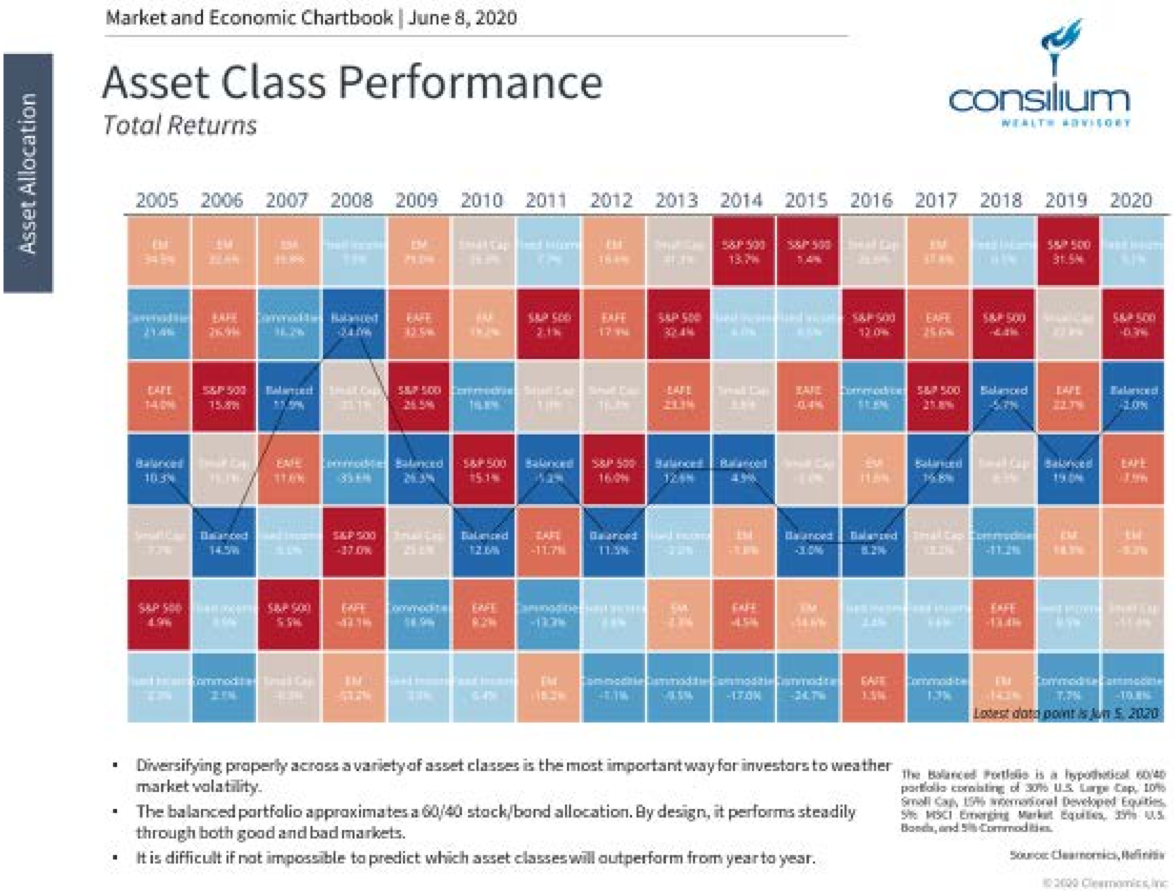
The S&P 500 has risen about 43% since its low on March 23. While the index is still down 5.7% from its February peak, it's important to maintain perspective around these numbers. Since the beginning of 2018, the stock market has risen almost 20%. Since 2017, it has gained 43%. Volatility and short-term pullbacks in the market are challenging to manage, but investors who can stay the course are often rewarded if the economy can recover as well.

2. Stocks markets around the world have recovered too



International markets have also recovered, although not to the same extent as U.S. stocks. However, all markets were hit equally hard at the onset of the crisis in an indiscriminate way. This suggests that each region's market recovery could take a different path, depending on the long-term economic and public health trends.

3. Asset allocation has played a vital role during this crisis



Asset allocation has played an especially important role in investor outcomes throughout this crisis. Fixed income has helped to stabilize portfolios and is still the best performing asset class year-to-date thanks to falling interest rates and government stimulus. The recovery in global stocks since March has helped to boost portfolios further.

The bottom line? Stocks have nearly recovered which is positive news for investors. Still, long-term investors should maintain discipline and not become complacent, especially as uncertainty continues.