Weekly Market Review

By: Joe Clark, CFA, Allegheny Research Team

The Week Ending July 31, 2020

Despite the second-quarter GDP showing the U.S. economy lost one-third of its value (on an annualized basis), the S&P 500 continued its grind higher and closed July up more than 5%. Technology was the dominant sector, leading the Nasdaq Index to outperform the S&P 500 with a 7% return, it's fourth consecutive month of positive performance. In a week of the Federal Reserve meeting, declining unemployment numbers, and Congress debating additional stimulus, negative GDP was a bit overlooked. Corporate earnings, specifically technology stocks, came through to exceed expectations and give investors' confidence in their high valuations, at least for the time being.

Annualized second-quarter GDP declined by 32.9%, the most significant decline in history. For comparison, the largest drop during the Global Financial Crisis was 8.4%, making the current period a league of its own. Much of the GDP's components were negative, most significantly being the consumer sector, which accounts for about 70% of the U.S. economy. Due to the COVID-19 induced shutdown, consumer consumption shrank by 25%.

Washington D.C. was busy last week as both monetary and fiscal policies were of top of mind. The Federal Reserve met for a scheduled meeting, and as expected, did not make any changes to monetary policy. Low rates and Fed purchasing programs are expected to continue for the foreseeable future. The Fed also announced they would be conducting a review of their policymaking strategy. While this is not expected to alter their plan, the Fed could limit their reliance on inflation as a large factor in interest rate decisions going forward.

On the fiscal side, Congress seemingly does not make much progress on a second stimulus bill. One factor that could push them towards a deal is the weekly unemployment claims. Last week, first-time unemployment claims were reported higher than the prior week for the second consecutive week, and the market traded higher. This seems counterintuitive; but, think about it for a moment. If claims are improving, the employment picture is improving, and Congressional members have time to gain some political capital by pushing harder for promises they made to their constituents. All this leads to an extended period before it is known how much and who will receive the funds (i.e., more uncertainty for the stock market). However, if the jobs picture worsens, Congress is being sent the message: workers need help. This leads the market to expect a faster deal to aid struggling parts of the economy, providing some certainty to the stock market and hopefully allows companies to trade higher.

Allegheny Financial Group · Allegheny Investments

811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com