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Stocks continued to climb higher in July. Large cap stocks in the S&P 500 were up 5.6% for the month which brought them into positive territory for the year with a 2.4% year-to-date return. Small cap stocks in the Russell 2000 were up 2.8% in July but are still down -10.6% year-to-date. International stocks in the MSCI EAFE are down -7.2% for the year after a 4.5% gain in July. Emerging markets stocks were up a strong 9.0% for the month and are now only down -1.5% on a year-to-date basis. The Barclays US Aggregate Bond Index rose 1.5% for the month bringing its year-to-date return to 7.7%.

After much speculation over the past four months, the bad news is finally in - second quarter GDP growth had its worst contraction ever as initial estimates peg it at -32.9%. Analysts expect third quarter to rebound strongly since the economy has begun the reopening process.

The impact of the economic shutdown is being reflected in the second quarter earnings reports. Of the 205 companies in the S&P 500 that have already reported, earnings are down about -40%. Although 76% have beaten their estimates, Zack's reports that "most companies still are unable to provide any meaningful guidance".

Shutting down the economy was damaging but the pain was not felt equally. Big tech companies actually thrived and demonstrated why their stock prices continue to soar. Amazon, Facebook, Apple, Google and Microsoft make up 22% of the market cap of the S&P 500 and they mostly had blow-out earnings. Amazon in particular was expecting $1.48 per share but actual earnings were $10.30 per share due to booming sales during the pandemic.

These five companies have a significant impact on the S&P 500 returns because it is a market cap weighted index – bigger companies have a bigger weighting. As of July 17, these 5 companies had year-to-date returns of 32% while the remaining 495 companies in the index had negative returns of -7.7% on average. The overall index was only down -1% because of the stellar performance of only 5 companies. The v-shaped recovery of the S&P 500 may lead some to believe things are better than they actually are.

Most analysts do not believe the economic recovery will be "v" shaped. They describe a "u" shape or a "square root" shape or even a "Nike swoosh" shape. The economy has a much different composition than the stock market – small businesses are a big part of the economy and they are greatly impacted by social distancing requirements. Some of those businesses won't ever reopen. Schools will be reopening soon and if it can be shown that it can be done safely and still contain the spread of the virus, that will bring more hope for a continued economic recovery.

Unemployment is still high and now the extra $600 per week of benefits has expired. Until now, incomes had been largely replaced. The government is working on a stimulus plan that may include extending these benefits. The size of the stimulus package may be in the trillions again.

The Fed left rates unchanged at 0%-0.25% and Chairman Powell even said he's "not even thinking about raising rates". The 10-year Treasury yield fell from 0.65% to 0.54% during the month. Long term rates are also expected to stay low for the foreseeable future.

Markets may pullback as news related to the coronavirus continues to be reported. We are also entering election season which may influence markets. It is important that investment changes you make at times like this are in-line with your long-term goals and not based on emotions. If you have any questions about your account, please do not hesitate to contact us.