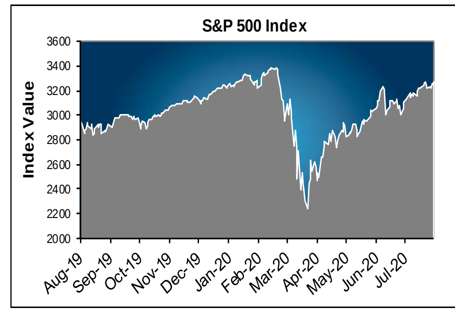
This Month in the Markets

July 2020

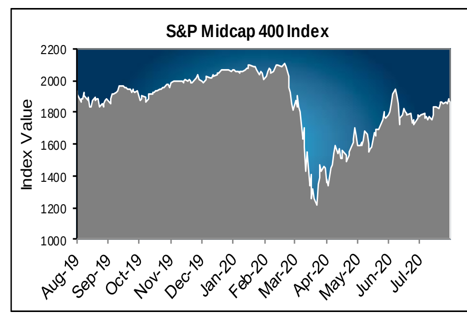
EQUITY COMMENTARY

Bifurcated Market

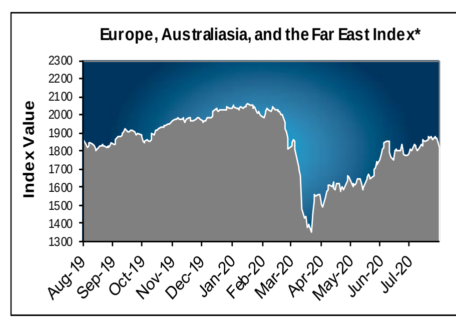
Despite global new COVID case counts continuing to rise and accelerating in many U.S. states, equity markets continued to push higher in July. Exceptional accommodative monetary and fiscal policy has helped offset the economic dislocation that has occurred since lockdowns began in March. Investors have flocked towards the megacap technology and communications companies, pushing them to all time highs which has buoyed the market. Overall, the Morgan Stanley All Country Global Index ended the month up 5.1%. The U.S. market once again outperformed international developed markets with the S&P 500 surging 5.5% and the Europe Asia Far East (EAFE) Index rising 2.2%. Emerging markets also outperformed returning 8.3% for the month. The technology heavy Nasdaq continued to outperform, rising 9.9% during the month bringing its year-to-date return to 22.7%. Cyclical stocks lagged again with energy companies the worst performing sector, down 3.9% for the month.



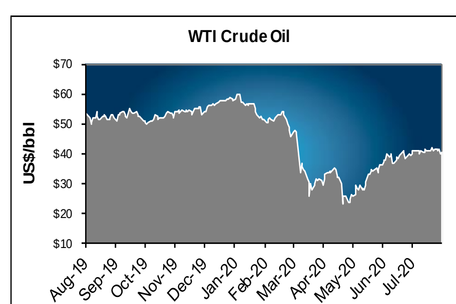
While overall new daily COVID-19 case counts pushed higher for much of the month, many of the underlying virus trends have improved, especially hospitalizations and fatalities. The Rate of Transmission (Rt) values have fallen below 1 in the problem states which has led to case counts plateauing and hospitalizations declining. This is welcome news and should enable these states to continue their reopening efforts which should in turn help the regional economies. There are regional hotspots in the U.S., Europe and in Asia which has caused some countries to restrict air travel again. Importantly, death rates have also declined with the health care system's better ability to manage the disease driven by multiple therapeutics and doctors better equipped to deal with COVID patients. Most of East Asia and Europe improved thanks to mask wearing, social distancing measures and phased re-openings which appear to be working.



The economic uncertainty caused by COVID has caused investors to look for investments that are less tied to the economy. Over the past several months Anchor has added several of these high-quality companies to our portfolios. In several cases we took the initial broad-based market sell off as an opportunity to add these companies at valuations that we have not seen for many years. While these positions have performed extremely well, valuations have increased significantly. We have recently taken the opportunity to trim many of our high-quality mega cap growth names. That said we remain long term holders in many of these high-quality businesses which have shown the ability to compound capital in the current "winner-take-all" environment.



At this stage, the million-dollar question on investors' minds is when will it be time to rotate away from the high-quality mega cap growth names and into the cyclicals. The global Purchasing Manager Index (PMI's) and several other economic metrics are indicating that the second half of 2020 and 2021 will experience an economic rebound. That said many bank executives are warning that high unemployment and industry dislocation will cause a prolonged downturn. While stay at home beneficiaries have led the market rebound many banks and cyclicals remain well off their highs. At this stage the Anchor Managers are looking for an opportunity to strategically add some exposure to some solid businesses whose share prices have been dragged down due to the fact that they operate in the more cyclical areas of the market. In many cases, the selloffs in certain sectors have been broad based with little differentiation between the quality of the businesses within.



*MSCI EAFE Index

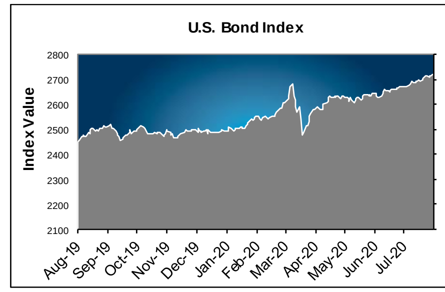
FIXED INCOME COMMENTARY

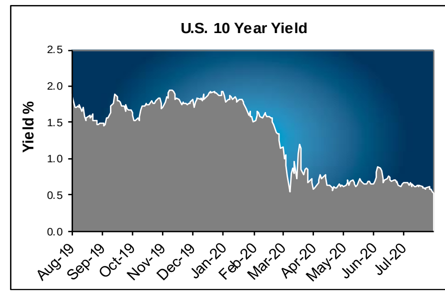
More of the Same

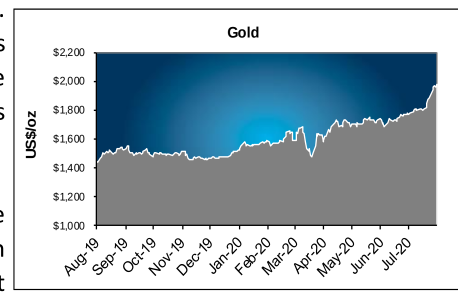
July was another strong month of corporate credit performance. This can be attributed to a range of contributing factors. Firstly, the Fed's support programs announced in March 2020, although mired in moral hazard, have been incredibly effective in subduing volatility in credit and interest rate markets. In addition, central bank rhetoric across the globe has been very dovish. ECB President, Christine Lagarde, summed up central bankers' message well when she commented that the economic recovery is "as uncertain and as uneven as the shock was decisive and across the board." As such, central bank policy will remain accommodative for the next couple years. Secondly, with Treasury yields near historic lows and negative yields abound in other developed markets (Germany, France, Japan, Italy, Spain, Sweden to name a few), a "reach for yield" environment has ensued making the extra yield on offer in corporate credit attractive relative to government debt. Thirdly, favorable survey data including ISM, PMI, and CEO confidence surveys are indicating some confidence in the economic recovery. In addition, given the significant slack in the labor market (unemployment rate 13.03% in the U.S.), inflation is not considered by the consensus to be an imminent risk. While the outsized gains in fixed income performance are likely behind us given corporate credit's rally over the last few months, we continue to believe that an overweight position to corporate credit in fixed income portfolios is appropriate.

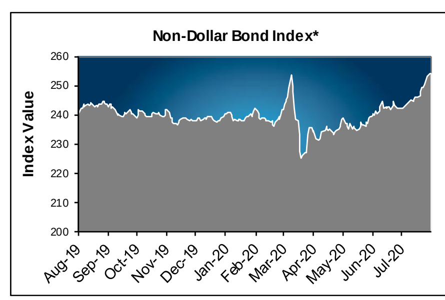
In July the European Commission announced a €750 billion stimulus package consisting of €390 billion of grants with the balance in low interest loans. In time we may look back upon this package as a historically significant agreement, not because of the size, but rather because it is the first to include a loss sharing aspect, thereby furthering the integration of EU nations. The euro certainly got a shot in the arm as evidenced by the +4.8% appreciation vs the USD. Elsewhere, U.S.-Sino relations continue to sour as evidenced by the ordered closing of the Chinese embassy in Houston. The U.S. election is slowly approaching. Biden is the clear favorite, however a lot can happen between now and election day especially in the current polarized U.S. political climate.

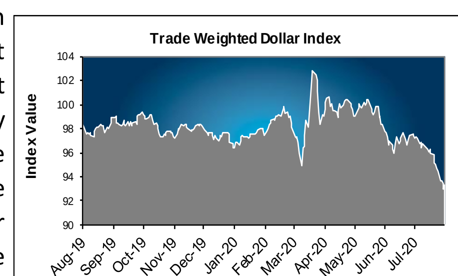
In last month's review we touched on the general depreciation of the USD since late March, citing the diminished interest rate differential that had been a pillar of support for the greenback. For example, the average 10Y interest rate of the G10 ex-US was approximately 1.5% in February but is now just 0.58%. The USD depreciation trend picked-up momentum in July as proxied by the DXY index which fell 4.2% in the month. Notable outperformers include the SEK (+5.8%), NOK (+5.4%), AUD (+3.5%), and EUR (+4.8%). Each of these currencies are more cyclically sensitive than the USD due to their greater reliance on trade. In addition to these cyclical currency's outperformance, the price of silver (with significant industrial uses) has notably outpaced the price of gold. As such, it appears the market may be starting to sniff out a recovery in global growth.











*Merrill Lynch Global Broad Market, Ex US Dollar Index

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