

Foresight Market Summary

August 31, 2020

Market Highlights:

In August, the global equity market continued its meteoric rise from the March lows. Stocks posted strong gains across the board. The Dow and the S&P 500, proxies for U.S. Large Cap stocks, are now +1.19% and +9.68% YTD, respectively. U.S. Small Cap stocks (Russell 2000) are down 5.51% YTD through August.

Equities	YTD	3-Month	6-Month	1-Year	3-Year	5-Year
S&P 500 Index	9.68%	15.29%	19.16%	21.86%	14.58%	14.13%
MSCI All Country World Index	4.78%	14.98%	14.92%	16.51%	9.31%	10.28%
Russell 2000 Small Cap Index	-5.51%	12.27%	6.98%	5.93%	5.30%	7.55%
Dow Index	1.19%	12.45%	12.96%	10.09%	11.49%	13.85%
MSCI EAFE Index	-5.10%	10.49%	5.88%	5.41%	2.23%	4.41%
MSCI Emerging Market Index	-0.15%	18.74%	10.57%	13.83%	2.22%	8.03%

Econ. Indicators	Percent	As of
Fed Funds Target	0.25%	8/31/2020
Inflation Core CPI	1.00%	8/31/2020
Unemployment	8.40%	8/31/2020
Real GDP Growth	-9.10%	8/31/2020
Yield Curve Spread	0.58%	8/31/2020
Wage Growth	4.95%	8/31/2020

Bonds	Yield	YTD	3-Month	6-Month	1-Year	3-Year	5-Year
US Treasury Bond Index	1.58%	8.48%	0.01%	3.30%	6.66%	4.99%	3.75%
US Aggregate Bond Index	2.38%	6.80%	1.16%	3.05%	6.28%	5.04%	4.26%
US Bank Loan Index	4.15%	-1.63%	3.17%	1.35%	0.86%	2.51%	3.00%
US High Yield Bond Index	4.99%	-0.32%	4.42%	1.46%	2.60%	3.96%	5.07%

Developed International stocks (MSCI EAFE) are now down 5.10% YTD, and Emerging Markets stocks (MSCI EM) are roughly flat on the year. The bond market was relatively flat in August. U.S. Treasuries gave back some of their strong YTD gains as Treasury yields climbed modestly from all-time low levels (yields have an inverse relationship with bond prices). Bank Loans were up approximately 1% in August, while High Yield bonds were roughly flat.

Economic Outlook:

The U.S. economy added back 1.4 million jobs in the month of August, and the unemployment rate fell by 1.8% to 8.4%. As companies continue to open their doors and bring back their temporarily laid-off workers, the unemployment rate will likely continue to fall, perhaps reaching the 7% level by year-end. Given that our economy currently sits between the deflationary forces of high unemployment and the potential inflationary forces of historic fiscal (Congress) and monetary (Federal Reserve) stimulus, one of the most controversial topics at the moment is the timing and the degree to which inflation will take hold. In August, at the virtual Jackson Hole Symposium, Fed Chair Jay Powell addressed this important topic. He introduced the concept of “average inflation targeting”, which effectively means the Fed would allow inflation to run a little hotter than their 2% inflation target. Chair Powell made it clear that the Fed’s number one priority is to regain job market health, and if that accompanies higher wage growth, so be it.

Insight of the Month:

The number one concern we are hearing from our clients centers around the upcoming Presidential election, which is just 7 weeks away. The Capital Group produced this chart showing the long-term performance of the S&P 500 broken into Democratic and Republican regimes. It serves as a good reminder that the market has little regard for which party occupies the White House. The market typically takes the view that materially changing the economy’s fundamentals takes time, which has historically resulted in resilient long-term market performance.

Growth of a hypothetical \$1,000 investment in S&P 500 Index



SOURCES: Morningstar, Standard & Poor's. As of 12/31/19. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale.

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- 3 -

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