Investor Intelligence Newsletter©

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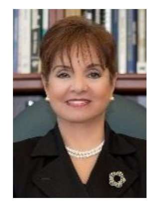
From the Executive Desk

Dr. Edmundo J. Garza
Chief Executive Officer & President

In the last ten years, August has gained a reputation for being one of the more volatile months of the year. For instance, in August of 2019, the S&P 500 Index posted moves of more than one percent in 11 of the 22 trading days, with three daily drops of more than 2.6 percent. At the time, trade friction with China was escalating, and some market watchers suggested that the bond market was signaling a recession on the horizon. One of the reasons for the past volatility is that some traders are away on vacation, resulting in lighter volume, which may have the effect of amplifying market volatility. But this year may be different since many people are staying closer to home due to the pandemic. Stock prices were elevated at the start of July, thanks to early results from a COVID-19 vaccine trial, a better-than-expected jobs report, and a higher-than-anticipated reading on manufacturing activity. Despite multiple states reporting increases in infections, stocks continued their climb, especially in the mega-cap technology companies. Meanwhile, investors remained confident, even as multiple regional Federal Reserve presidents warned of a bumpy economic recovery. Overseas markets were mixed. Optimism for the development of the vaccine was offset by continued tension between the U.S. and China. In the final week of trading, investor sentiment alternated between worry and optimism. A disappointing U.S. jobless claims report and a stunning second-quarter GDP number caused some worry. But the mega-cap technology names reported exceptional earnings, capping off a strong month for the equity markets. It will be interesting to see if this perception of strength spills over into the next month because this August will stand on its own merits.

Economic Perspectives

Myrna Rivera, CIMA®
Founder & Senior Investment Advisor



The incremental reopening of the economy and improving labor market conditions contributed positively to equity market performance in July, however the path of recovery remains uncertain and highly dependent on the course of the virus. As the economy gradually reopens, state and local governments may see improvement in tax collections as workers continue to return to their jobs. The Bureau of Labor Statistics recently released its latest report on the state of the labor market noting that the unemployment rate declined to 10.2% in July, adding 1.8 million jobs to the economy. However, concerns of a second wave, coupled with a resurgence in infections in states such as Texas, Florida, Arizona, and California, may slow the pace of re-openings. As phase 4 stimulus negotiations continue, many investors have turned their attention to Washington. Investors are particularly interested in the potential state and local government aid that could be included in the next package. Sector-specific aid, such as education, transportation, and healthcare are being closely monitored as well. No single playbook can address the economic fallout from a global pandemic. As the first country to be hit by the pandemic, as well as the first to rebound, China is on track to return to growth in the second quarter—after its first quarterly contraction in decades—and regain its pre-COVID growth level by the fourth quarter. Some analysts point to a growth forecast of 2% for 2020 and 9.2% in 2021. In the U.S., expansionary policies will likely linger, even as unemployment rates decline. While an additional round of fiscal support is in the works, U.S. GDP is expected to contract by 5.8% for the full-year and could be followed by 3.9% annualized growth in 2021.

Indicators (As of July 31, 2020)

United States:
CPI: +1.0% Chg. from yr. ago
Unemployment Rate: 10.2%
GDP: -9.2% Comp. Annual rate of Chg. on 2020: Q2
Ind.Prod.Index: 3.0% change from previous month
Source: *St. Louis Fed. Res.*

Japan:
CPI: 0.0% Chg. from yr. ago
Unemployment Rate: 2.9%
GDP: -0.9%, Comp. Annual rate of Chg. on 2020: Q1
Ind.Prod.Index: 2.7% change from previous month
Source: *Moody's Analytics*

Eurozone:
CPI: 0.3% Chg. from yr. ago
Unemployment Rate: 7.4%
GDP: -12.2%, Comp. Annual rate of Chg. on 2020: Q2
Ind.Prod.Index: 9.1% change from previous month
Source: *Moody's Analytics*

Puerto Rico:
CPI: -0.7% Chg. from yr. ago (June)
Unemployment Rate: 7.8% (June)
Payroll Employment: -1.8% Chg. from yr. ago (June)
EDB Econ. Act. Index: -0.4% Chg. from yr. ago (April)
Source: ***P.R.E.D.B.***

Market Recap

Evangeline Dávila, CIMA®
Chief Research & Investment Officer

Stocks: Stock prices rallied in July as further development of a COVID-19 vaccine and better-than-expected corporate financial reports encouraged investors. The S&P 500 gained 5.5 percent, while the Nasdaq Composite picked up 6.8 percent. The Dow Industrial Average, which has lagged much of the year, rose 2.4 percent. As of July 31, more than half of the companies comprising the S&P 500 Index reported their earnings. Of these companies, 84 percent reported earnings above analysts' estimates, with the Health Care and Technology sectors leading the way.

Bonds: The benchmark 10-year Treasury yield, which influences mortgages and other loans, rose to 0.77% from just under 0.70% at the end of the month. The Fed's federal fund rate remains within a range of 0% to 0.25%. The Fed trimmed rates earlier this year as the pandemic caused serious damage to the economy. Municipal market performance was mixed for the month of July. The Bloomberg Barclays Municipal Index returned 1.68 percent for the month, marking the third consecutive month of positive returns.

Alternatives: The Bloomberg Commodity Index returned +5.7% in July. Precious Metals (+12.7%) and Industrial Metals (+7.0%), which combine to account for roughly 35% of the overall index led the advance. Precious metals prices surged in the month of July as U.S. dollar weakness persisted. Gold prices appreciated +10.9% while the price of silver appreciated by 34.0%, supported by supply-side concerns as some of the largest producing countries faced COVID-19-related labor force disruptions.

What to Do?

Year-over-year U.S. GDP growth fell from +0.3% to -9.5% in Q2. Sharp contractions in personal consumption, gross private domestic investment, and exports resulted in the largest ever quarterly contraction in GDP. The U.S. added 1.8 million to non-farm payrolls in July, better then economists' expectations of 1.4 million jobs. The U.S. unemployment rate fell from 11.1% in June to 10.2% in July. The U.S. stock market continued to improve with the S&P 500 Index advancing again in July and returning 5.6%. The Federal Reserve left the range for federal funds unchanged at 0.00-0.25% - where they have been since March 15th. The Fed offered little guidance as to the path forward for interest rates and stated that the path of the economy will depend on the virus. ***Hence, we continue to recommend prudent asset allocation and risk assessment, based on future capital needs for plan sponsors, institutions, and individual investors. We believe that higher quality assets are favored. We shall continue to explore opportunities for rebalancing as assets shift in weight relative to overall strategies. We believe rebalancing is fundamental to a well-executed long-term investment strategy, and that due diligence reviews and an adherence to a well-developed investment policy remain the most prudent course of action for long-term investors.***