



A Disconnection

The month of July saw risk assets continue their rise in the face of ongoing economic weakness in the U.S. This furthered the disconnect between forward-looking equity markets and the present impact the virus is having on the economy, and has left many investors at a loss, even as pockets of the market achieve new all-time highs. Overall, the bellwether S&P 500 Index added 5.64% this month, turning the index positive year-to-date, with returns over 2% now, a full recovery from March's dramatic plunge into bear market territory. This is despite half the states either rolling back or pausing reopening plans, given that virus case counts are jumping to new highs.

While economic data is backward-looking, it's worth noting that this recovery remains underway as continuing jobless claims began the month in excess of 19 million, but finished at just over 17 million. While directionally this is positive, the absolute numbers remain staggering. Retail sales also continued to bounce back, up a better-than-expected 7.5% for the month of June. The gains were in large part due to a spike at apparel stores (+105%), electronics and appliance (+37.4%) stores, though restaurants and bars also saw a 20% uptick. Meanwhile, areas of strength during the height of the pandemic like non-store retailers and food and beverage stores actually saw small declines month-over-month. On a year-over-year basis, retail sales were up 1.1% versus the same period in 2019, showing that the American consumer remains a bright spot as we entered the second half of this uncertain year.

For their part, lawmakers in Washington continued their efforts on the next stimulus package. While they remain far apart at the time of this writing, markets expect a deal will ultimately get done to further support lower income households as well as providing some economic relief to municipalities facing the full brunt of the pandemic. With the August conventions on tap, this could be the last hurrah before election season ramps up in earnest – though we have seen lawmakers act during this period when called upon in prior crises, as we did in September 2008.

Fears of future inflation from all of this debt-financed stimulus have cropped up in many outlets, but the Federal Reserve has maintained their incredibly accommodative policy stance. Chairman Jerome Powell signaled concern for deflation rather than inflation at this time stating, "We see core inflation dropping to 1%. I do think for some time we're going to be struggling against disinflationary pressures rather than inflationary pressures." Bond markets appear to expect that to be the case for years to come as yields across the curve continued to move towards zero. While the Fed and Congress have done much to stem the tide and seemingly avert a depression, Powell signaled that there might be more to come, "I think in the broad scheme of things, that there will be a need both for more support from us and more fiscal policy." With that backstop firmly in place, junk bonds once again posted strong returns, with the Bank of America High Yield index up 4.75% this month. Likewise, low rates have helped spur demand in the housing market where pending home sales jumped 16.6% in June, after a 44.3% increase the prior month.

Overseas, markets caught a tailwind from the weaker dollar. This combined with China's recovery and a wave of global liquidity helped to push emerging markets up nearly 9% for the month as measured by the MSCI EM Index. Expectations for a weaker dollar also helped propel the price of gold to an all-time high, finally eclipsing the previous record from 2011, and breaking the \$2,000 mark for the first time.

As we move from the initial snapback to this new, and perhaps much longer, phase of the economic recovery, we are mindful of the risks that were apparent to market participants at the start of 2020, even before the pandemic hit. Critical elections here and in Europe are likely to affect everything from tax rates and social benefits to global trade policies. With that in mind, we remain cautious in the face of further volatility that may come this year. Still, regardless of the election outcome, good companies will exist and continue to offer opportunities for investors willing to seek them out.

Thank you for your interest in our monthly investment commentary. Starting next month, we are excited to roll out a new format to the piece, and look forward to sharing additional insights as we move forward together. If you would like to speak personally with a member of our team at any time, please click [here](#).

Yield Hunt

With interest rates making all-time lows and many companies suspending or cutting dividends during the pandemic, the hunt for investment income is as difficult as ever. It is important to consider the risks involved with focusing solely on income production in such a low yield world. Some of the strategies for delivering income in the past may not be appropriate for investors going forward.

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Ropes Wealth Advisors LLC
800 Boylston Street Boston, MA 02199-3600