



Market Trades Sideways

Colleges Go Remote, Growth & Momentum Reclaim Top Spot

Key Market Themes This Week

Market sentiment remains frothy. A Bank of America Global Fund Manager Survey showed investors are the **"most bullish" since February 2020**, with 46% of investors saying "it's a bull market". The S&P 500 has rebounded 51% from its March lows and reached **all-time intraday high** on Wednesday this week. Tech is a big reason for the S&P 500's return, with **Apple's market cap surpassing \$2Tn** in intraday trading on Wednesday. Market catalyst continue to be much the same - central bank stimulus and liquidity, fiscal stimulus, vaccine optimism, and improving economic data. It remains difficult to fight the Federal Reserve's policy. Minutes released this week from the Fed's July 2020 meeting provided little detail on upcoming policy. The Fed again highlighted the risk of an economic downturn, which has significant **dovish implications**. We continue to expect credit spreads to tighten and maintain our high yield OW. There are risks to the continued strong performance. Multiple colleges moved to **remote learning** less than a month into the fall semester. It's more folk-wisdom than fact, but bullish surveys are often cited as a contrarian indicator. U.S. politics are a mess, with congress unable to agree on a fifth stimulus package and unemployment benefits in limbo. The **2020 presidential election** occurs in 74 days, and both political bases are digging in their heels. We believe the current debate over the U.S. Postal System is an indicator of how bad things could become. Internationally, U.S.-China tensions continue to deteriorate at a fast pace. The U.S. Department of Commerce announced additional curbs on Huawei and continues to push for the sale of TikTok's U.S. operations. The **U.S. State Department** sent out a letter asking U.S. colleges and universities to divest Chinese holdings ahead of potentially more enhanced listing standards. For all of the pressure the Trump administration is putting on China, we believe China is hesitant to respond in-kind. China's economy is increasingly reliant on U.S. firms' technological advances.

MDR's Strategic Ratings in Focus

► U.S. housing market data indicates the housing recovery remains strong. August 2020 NAHB homebuilder sentiment jumped 6 points to 78, which is the highest level in the index's 35-year monthly history. July 2020 housing starts came in at 1,495K vs the consensus estimate of 1,240K. June 2020 building permits came in at 1,495K vs the consensus estimate of 1,320K. The U.S. housing market appears to be red hot right now. **We previously highlighted a tactical COVID-19 housing recovery position in the 5/29/2020 Friday Strategist. We continue to believe the position is attractive.**

► Berkshire Hathaway's latest 13-F shows Warren Buffett reduced his U.S. financials position. Buffet sold shares in JPMorgan Chase, Wells Fargo, and Goldman Sachs. The KBW Nasdaq Bank Index is down -33% YTD, while the S&P 500 is up +5.8%. We continue to believe the sector is difficult to own in the current macro environment of low interest rates and uncertainty around loan losses. **We downgraded Financials from N to UW at the start of July 2020.**

► Growth and momentum reclaimed their top spot among investment factors after struggling last week. **We remain OW both growth and momentum, especially given the downside risk this fall as college campuses open for classes.**

Quick Takes

► **The Euro is on a strong run against USD after strengthening +9% over the last 3-months.** Europe has not experienced as strong of a COVID-19 resurgence as the U.S. The recently approved bloc-wide stimulus package signals improving regional relations. However, there are signs the Euro's strength could be fading. European countries are seeing a tick up in COVID-19 case counts. In addition, the Euro's trailing m/m return is +2std (e.g. ~95% of values in a normal data set would be expected to fall within +2std, which indicates the Euro's recent move should be viewed as an outlier).

Weekly Insights

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Report Overview

Portfolio Strategy is a weekly note built to track markets intra-month with the goal to: (1) highlight near-term trends; (2) discuss market moving news; and (3) monitor MDR's strategic & tactical position opportunities. (Note: *Portfolio Strategy* is not published during weeks when the monthly reports are released at the start of each month.)

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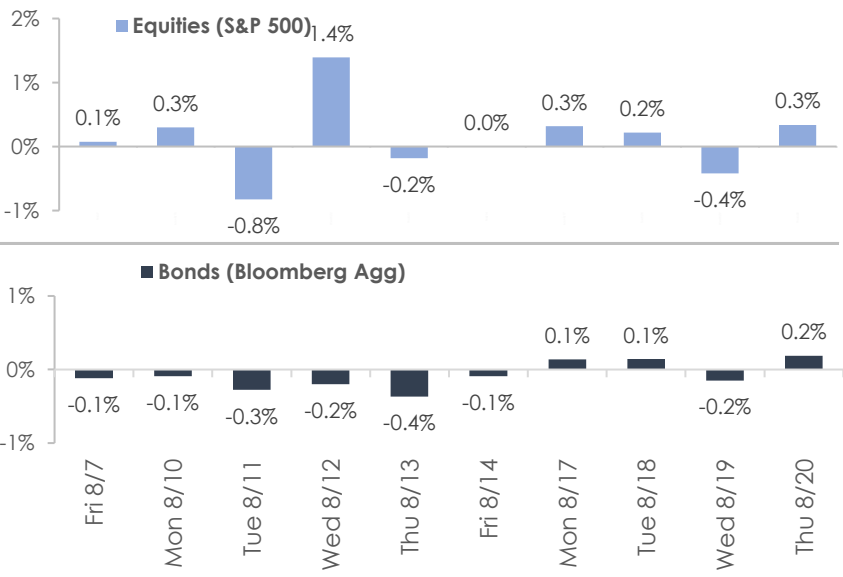
Asset Class Performance

	1W	1M	3M	14d RSI	m/m%	Std
Market Caps						
U.S. Large	0.4%	4%	15%	78		+0.6
U.S. Small	-0.9%	5%	16%	77		+0.8
U.S. Mid	-1.9%	4%	13%	66		+0.6
U.S. Sectors						
Tech	2.2%	7%	21%	71		+0.7
Comm Svcs	1.6%	5%	14%	76		+0.7
Cons Disc	1.3%	7%	20%	87		+0.8
Cons Stpls	0.0%	4%	12%	67		+1.1
Health	-0.3%	1%	8%	58		-0.0
REITs	-0.5%	4%	11%	47		+0.6
Materials	-0.5%	2%	18%	70		+0.3
Industrials	-1.4%	6%	20%	78		+0.9
Utilities	-2.6%	-1%	6%	40		-0.1
Financials	-2.9%	0%	12%	56		+0.3
Energy	-4.2%	-5%	-4%	52		+0.2
U.S. Factors						
Momentum	3.1%	4%	19%	68		+0.3
Growth	2.3%	7%	21%	70		+0.7
Quality	0.2%	4%	12%	81		+0.5
Low Volatility	-0.2%	2%	8%	60		+0.2
Dividends	-1.3%	1%	9%	64		+0.3
Value	-1.4%	2%	10%	66		+0.4
Fixed Income						
UST (+20Y)	0.8%	-1%	0%	33		-0.6
US HY	0.6%	1%	6%	40		+0.3
UST (7-10Y)	0.5%	0%	0%	39		-0.3
US IG	0.1%	-1%	5%	34		-0.6
US MBS	0.1%	0%	0%	44		-0.2
UST (1-3Y)	0.0%	0%	0%	21		-0.4
EUR IG	-0.1%	0%	4%	58		+1.7
EM USD Sov	-0.4%	1%	7%	65		+0.3
US Muni	-0.6%	0%	2%	30		-0.2
EUR HY	-0.8%	0%	7%	65		+1.0
Commodities						
Natural Gas	8.7%	42%	26%	78		+3.4
Corn	4.3%	5%	7%	69		+0.0
WTI	1.4%	2%	29%	68		+0.2
Soybeans	0.5%	1%	10%	55		
Gold	-0.7%	6%	13%	45		+1.4
Silver	-0.9%	27%	55%	59		+3.9
Steel	-0.9%	-11%	-14%	2		

	1W	1M	3M	14d RSI	m/m%	Std
Americas						
Canada	0.7%	5%	18%	76		+0.8
Chile	0.4%	0%	10%	38		+0.4
Mexico	0.4%	6%	12%	79		+1.0
Colombia	-0.1%	-3%	10%	47		-0.1
Argentina	-1.9%	0%	17%	45		+0.1
Brazil	-2.7%	-8%	23%	26		-0.6
Europe						
Turkey	3.9%	-9%	1%	47		-0.9
Greece	1.1%	4%	16%	66		+0.2
Germany	-0.2%	1%	24%	77		+0.3
U.K.	-1.3%	0%	9%	65		+0.2
Italy	-1.7%	-1%	25%	68		-0.1
France	-1.9%	0%	21%	67		+0.1
Russia	-2.4%	4%	14%	64		+0.6
Spain	-2.6%	-3%	16%	60		-0.4
Middle East & Africa						
Saudi Arabia	2.9%	7%	13%	89		+1.1
UAE	1.8%	6%	12%	79		+1.2
S. Africa	-1.0%	-7%	12%	43		-0.5
Asia-Pacific						
China	1.8%	1%	26%	61		+0.2
Australia	1.2%	2%	22%	73		+0.6
India	0.5%	3%	27%	68		+0.5
Japan	-0.2%	3%	11%	86		+0.5
Philippines	-0.3%	0%	14%	67		-0.1
Singapore	-0.9%	-1%	8%	60		-0.1
Hong Kong	-1.4%	1%	14%	67		+0.3
Taiwan	-2.3%	1%	21%	45		+0.3
Vietnam	-3.9%	-2%	4%	58		-0.5
Thailand	-4.7%	-5%	2%	42		-0.6
S. Korea	-6.1%	4%	22%	58		+0.7
Currencies						
BTC	8.0%	43%	33%	58		+1.3
\$/BRL	5.3%	8%	2%	77		+0.8
GBP/\$	0.3%	3%	8%	51		+1.5
\$/AUD	0.2%	-1%	-9%	51		-0.9
EUR/\$	0.0%	3%	9%	51		+2.0
\$/CNY	-0.3%	-1%	-3%	32		-0.7
\$/MXN	-0.5%	-1%	-3%	50		-0.5
USD	-0.6%	-3%	-7%	41		-2.0

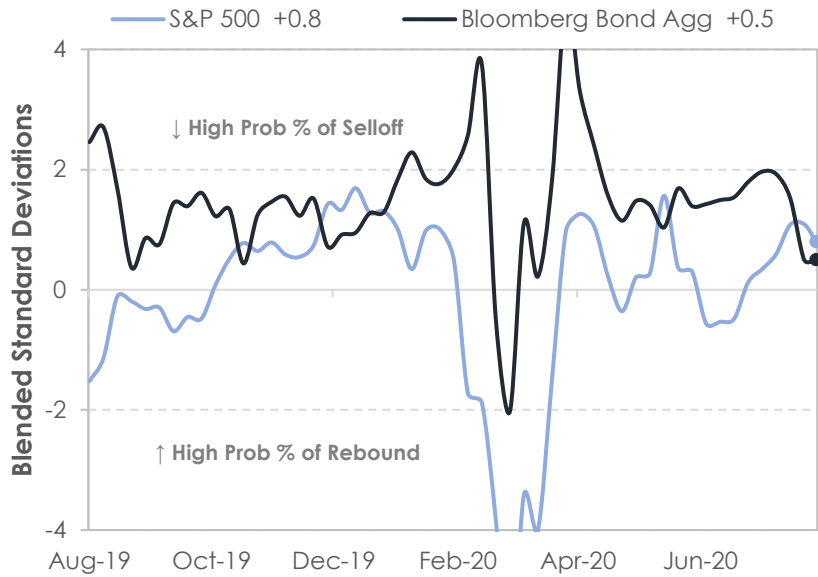
Sentiment & Technicals

Figure 1: Last 2-Weeks - Daily Returns



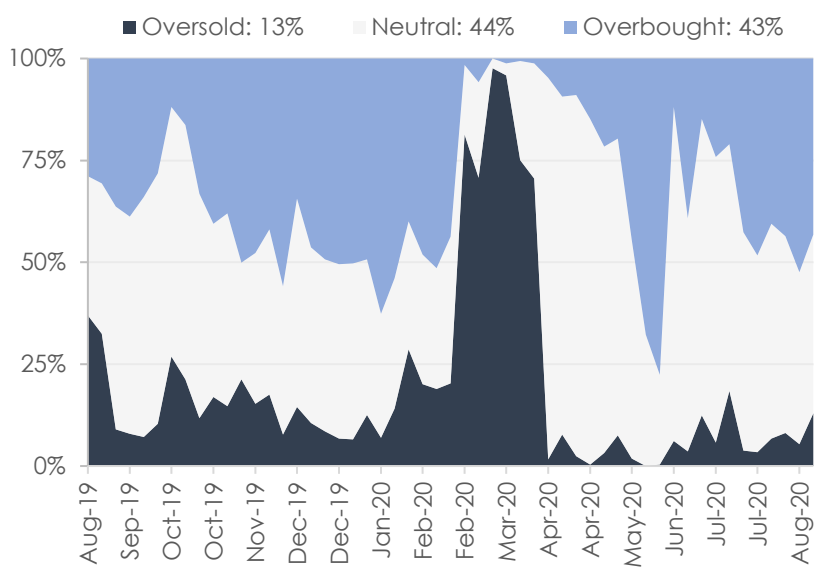
Source: MarketDesk Research

Figure 2: 50/50 Blend of y/y% and m/m% Z-Score



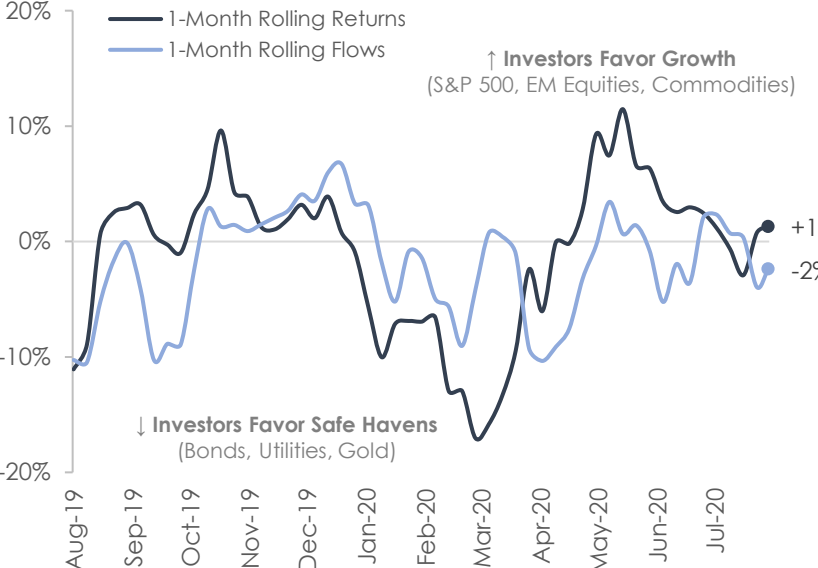
Source: MarketDesk Research. **Note:** Z-Score based on 10 years of data.

Figure 3: % of S&P 500 Stocks



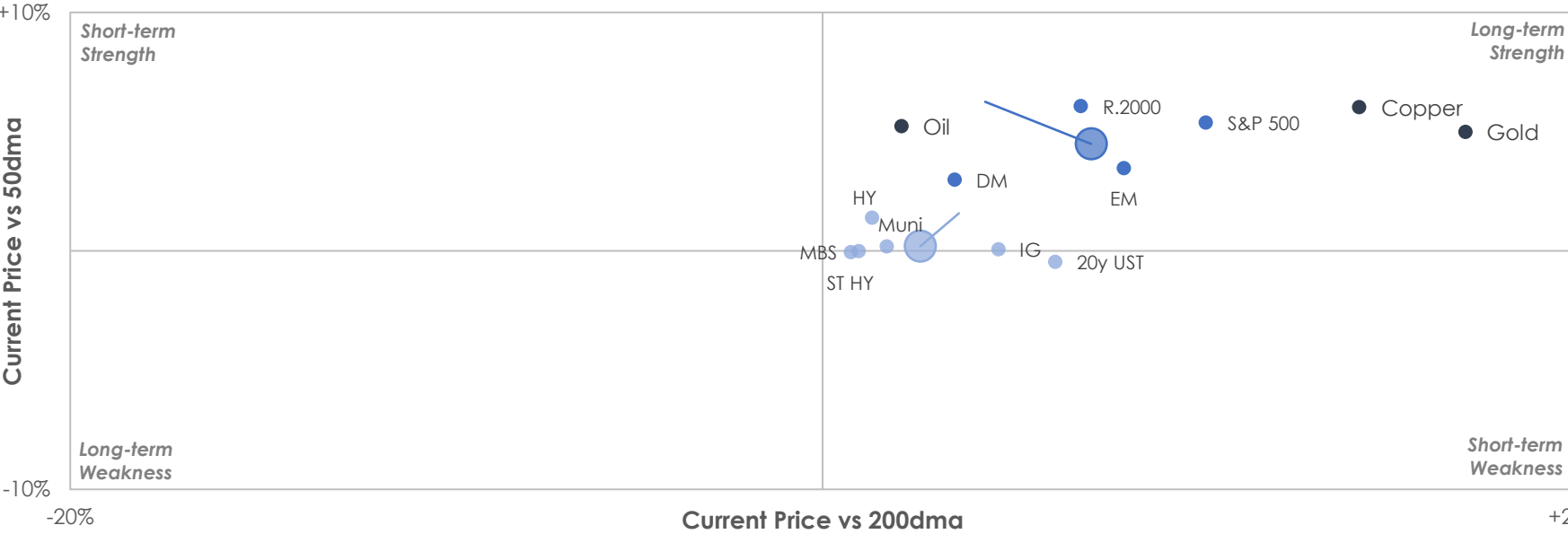
Source: MarketDesk Research. **Note:** OS / OB is based on 50dma Z-Score.

Figure 4: Investor Positioning - Growth vs Safe Havens



Source: MarketDesk Research

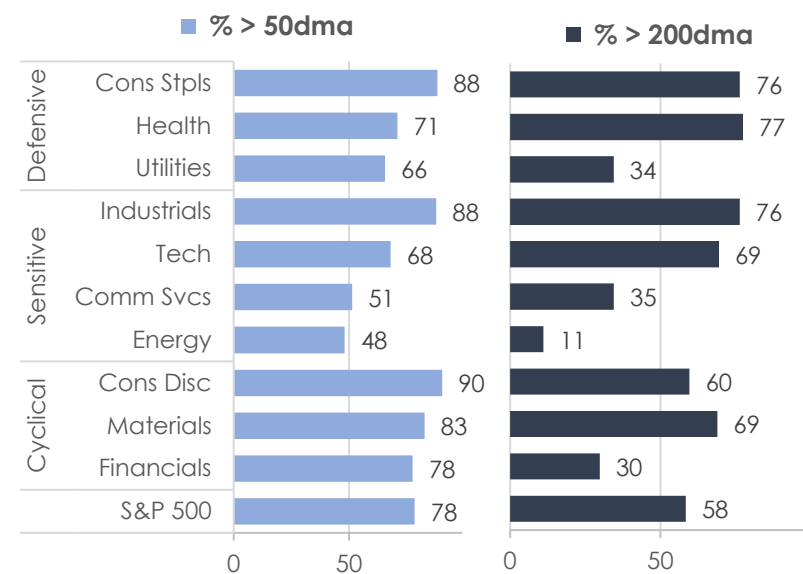
Figure 5: Asset Classes vs 200/50 Day Moving Averages



Source: MarketDesk Research

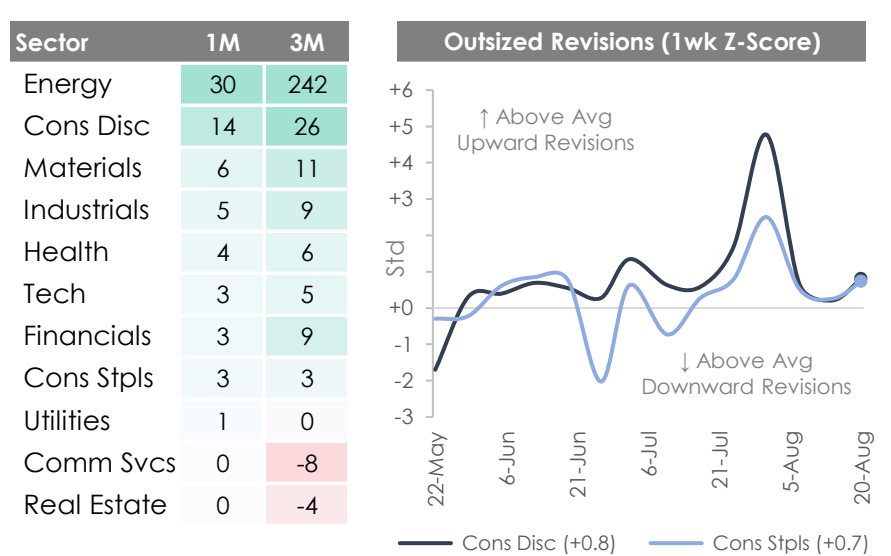
Sectors & Industries

Figure 6: Sector Technical Strength



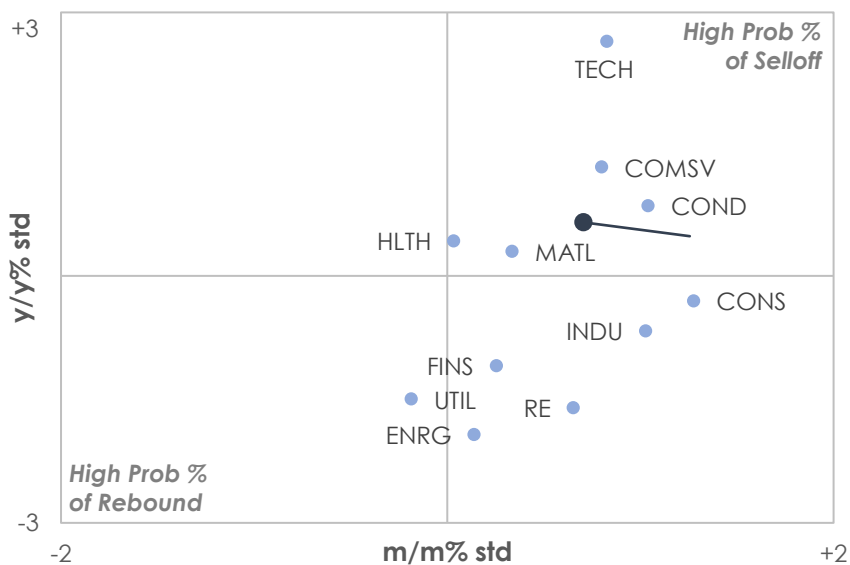
Source: MarketDesk Research

Figure 7: Sector NTM Earnings Revisions (%)



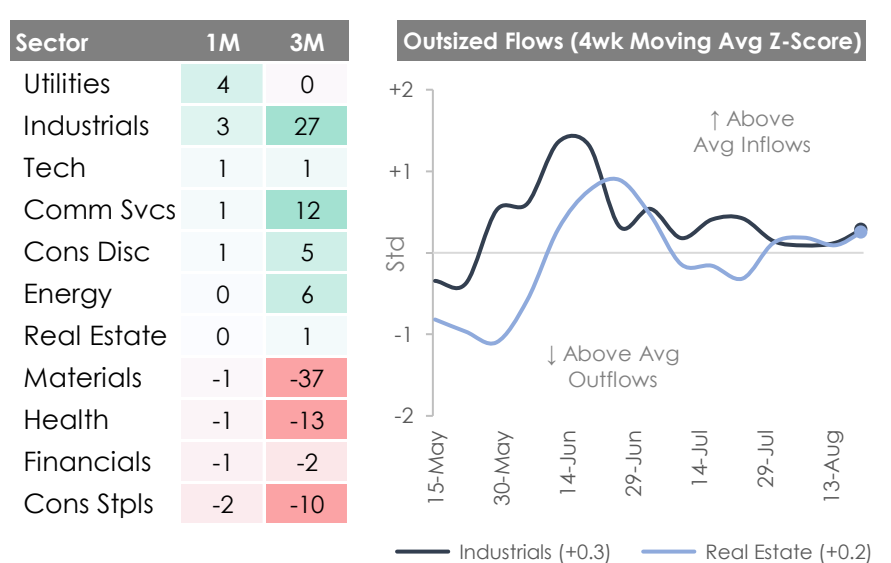
Source: MarketDesk Research. **Note:** Z-score based on 3 years of data.

Figure 8: Sector Returns - m/m% & y/y% — S&P 500 (1wk chg)



Source: MarketDesk Research

Figure 9: Sector Asset Flows (%)



Source: MarketDesk Research. **Note:** Z-score based on 3 years of data.

Figure 10: Top / Bottom Performing Industries

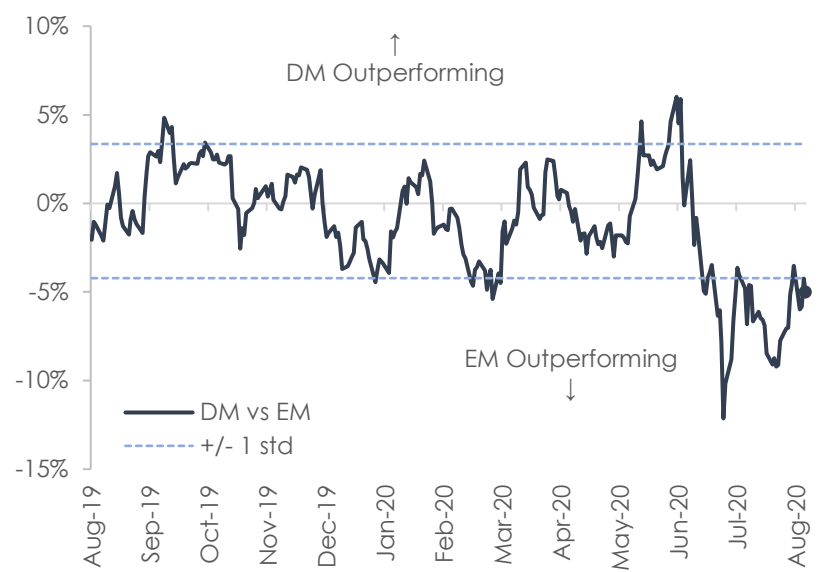
Industry	OB/OS	1 Week	1 Month
Automobiles	+1.9	12.3%	
Electronics Stores	+1.9	3.8%	
Internet Retail	+1.2	3.1%	
Hospital/Nursing	+1.3	3.0%	
Homebuilding	+1.6	2.8%	
Precious Metals	+0.8	2.5%	
Forest Products	+1.6	2.0%	
Discount Stores	+2.0	1.8%	
Beverages (Alcoholic)	+1.9	1.5%	
Software	+0.8	1.4%	
Tobacco	+1.5	1.4%	
Internet Software	+1.6	1.3%	

Industry	OB/OS	1 Week	1 Month
Books/Magazines	-1.3	-7.7%	
Oil & Gas Exploration	-0.6	-6.8%	
Coal	-1.1	-5.6%	
Marine Shipping	+0.4	-4.0%	
Department Stores	-0.1	-3.7%	
Major Banks	+0.2	-3.4%	
Gas Utilities	+0.6	-3.3%	
Metal Fabrication	+1.4	-3.2%	
Oil & Gas Production	-0.3	-3.2%	
Savings Banks	-0.1	-3.0%	
Airlines	+0.1	-2.9%	
Integrated Oil	-0.9	-2.8%	

Source: MarketDesk Research. **Note:** OS (oversold) / OB (overbought) is based on 50dma Z-score.

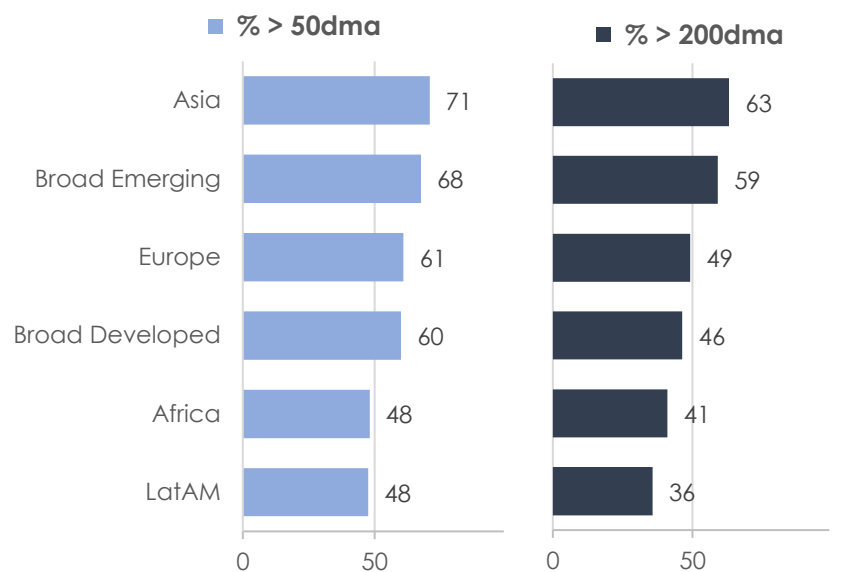
International Markets

Figure 12: DM vs EM Equities (Rolling 3M Return)



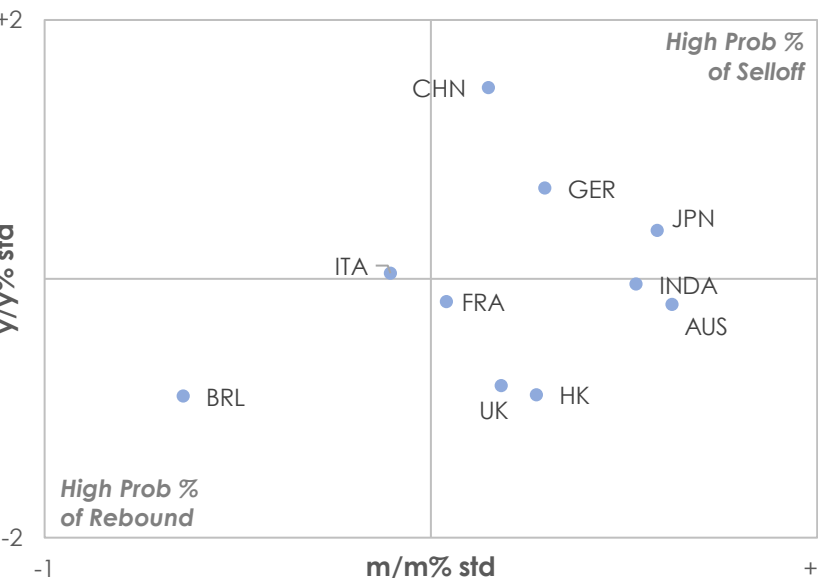
Source: MarketDesk Research

Figure 13: Regional Technical Strength



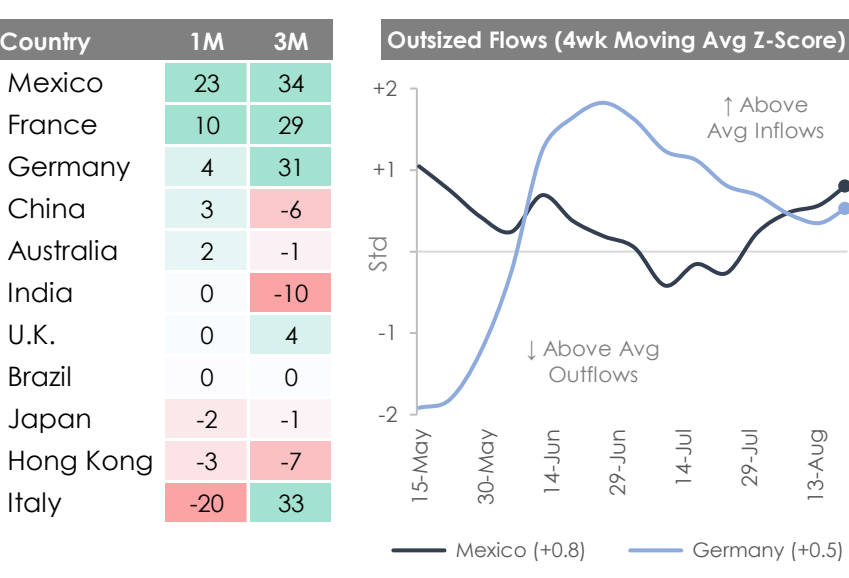
Source: MarketDesk Research

Figure 14: Country Returns - m/m% & y/y%



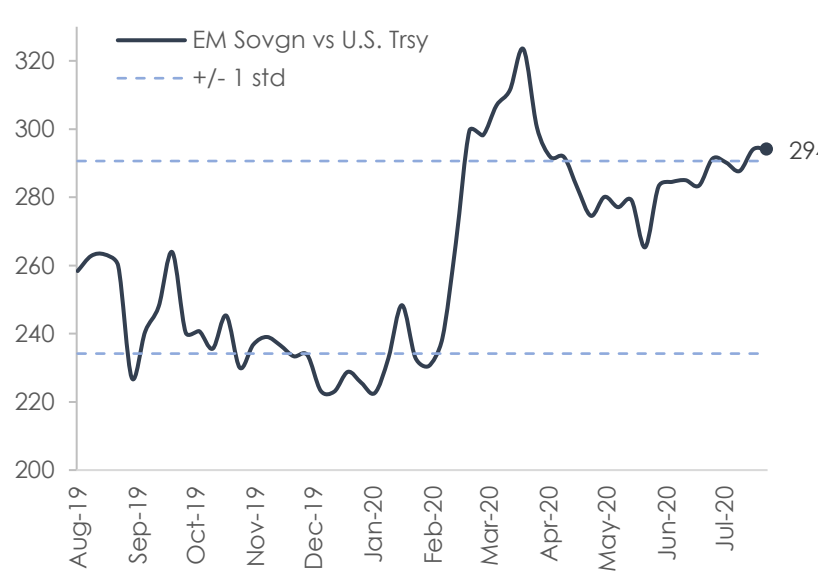
Source: MarketDesk Research

Figure 15: Country Asset Flows (%)



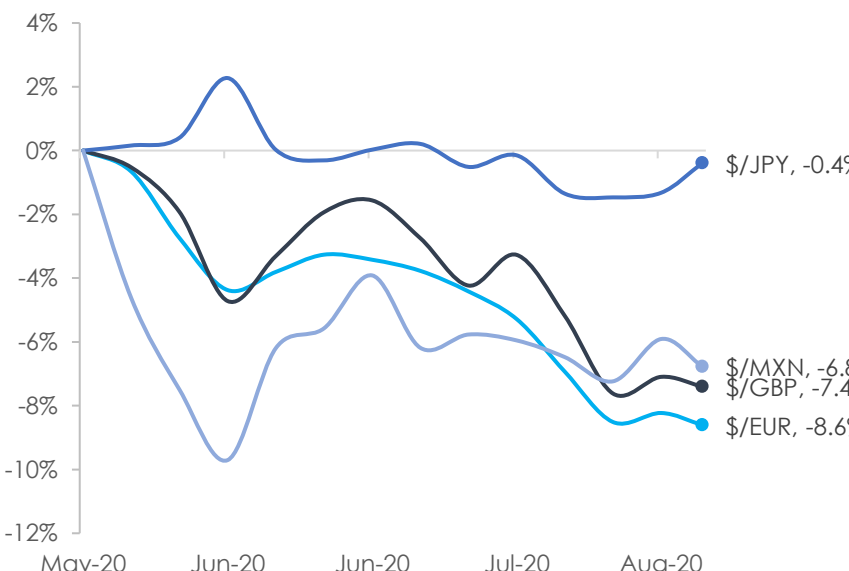
Source: MarketDesk Research. Note: Z-score based on 3 years of data.

Figure 16: Yield Spread (bps) - EM Sovereigns vs Treasuries



Source: MarketDesk Research

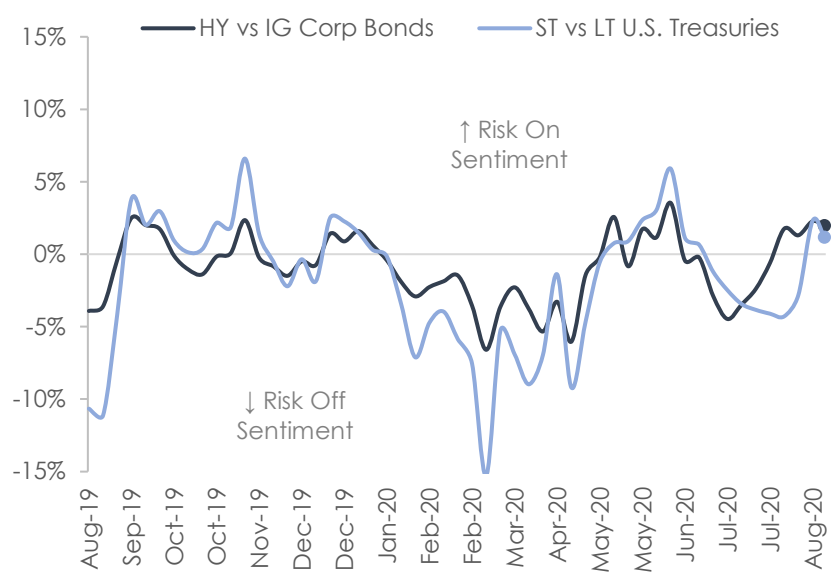
Figure 17: U.S. Dollar vs Major Currencies



Source: MarketDesk Research

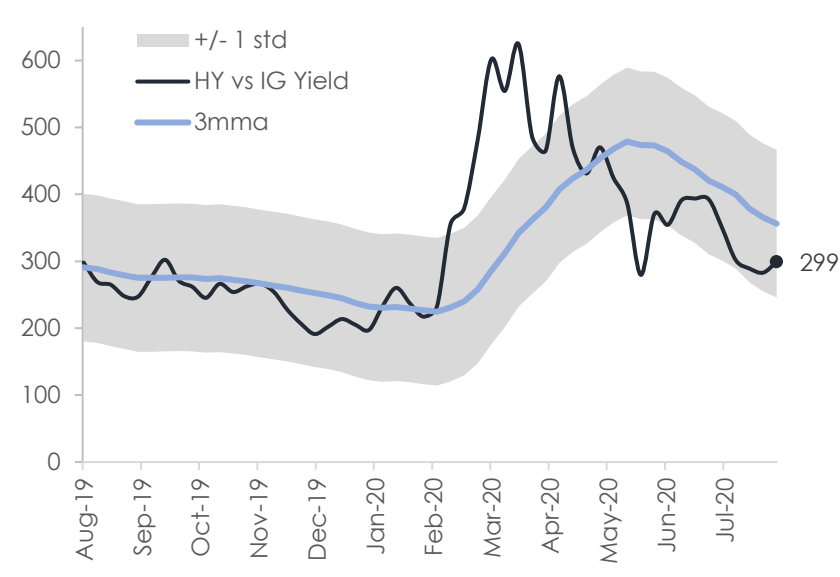
Credit Markets & Commodities

Figure 18: Rolling 1-Month Relative Credit Returns



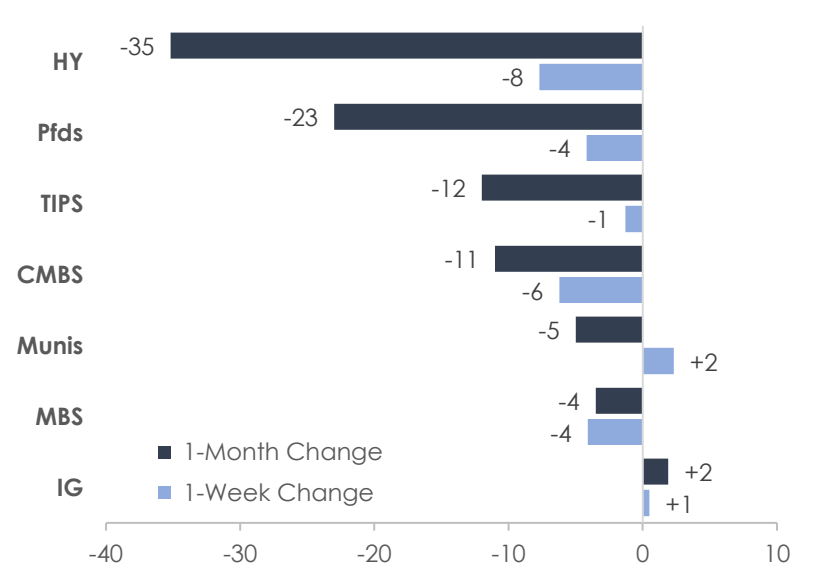
Source: MarketDesk Research

Figure 19: U.S. Corporate Bond Spread in bps (HY vs IG)



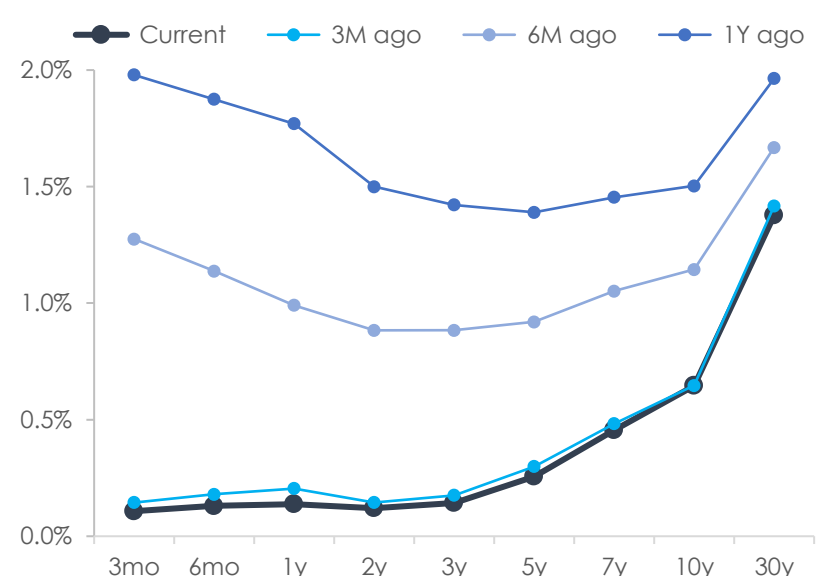
Source: MarketDesk Research

Figure 20: Yield Change over 1W & 1M (bps)



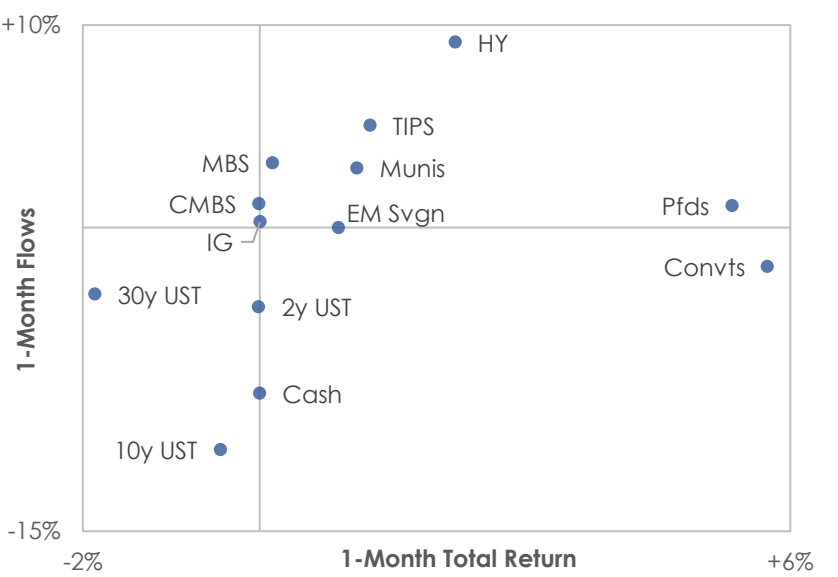
Source: MarketDesk Research

Figure 21: U.S. Treasury Yield Curve



Source: MarketDesk Research

Figure 22: Credit Returns vs Flows (m/m%)



Source: MarketDesk Research

Figure 23: Commodity Market Overview

Returns (%)	1W	1M	3M	1Y	Low	52wk Range	High
Energy							
					Current (●) vs 1m ago (—)		
WTI	1	4	25	-24	6.50	—●—	65.65
Nat Gas	1	27	28	2	1.52	—●—	2.91
Propane	-1	3	6	26	0.26	—●—	0.56
Metals							
Gold	-5	9	14	29	1,446	—●—	2,089
Silver	-2	42	60	60	11.64	—●—	29.92
Steel	-3	-7	-13	-24	448	—●—	615
Aluminum	1	7	17	0	1,422	—●—	1,828
Agriculture							
Corn	4	-2	2	-12	3.07	—●—	4.03
Soybeans	3	1	9	6	7.98	—●—	9.45

Source: MarketDesk Research. **Note:** Red (Blue) lowest (highest) two in each time period.

Website

www.MarketDeskResearch.com

Sales Team

+1 (646) 787-0394

Sales@MarketDeskResearch.com

Client Support

+1 (646) 787-0394

Support@MarketDeskResearch.com

Firm Brochure

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