ROCKLAND TRUST | Investment Management Group

September 04, 2020

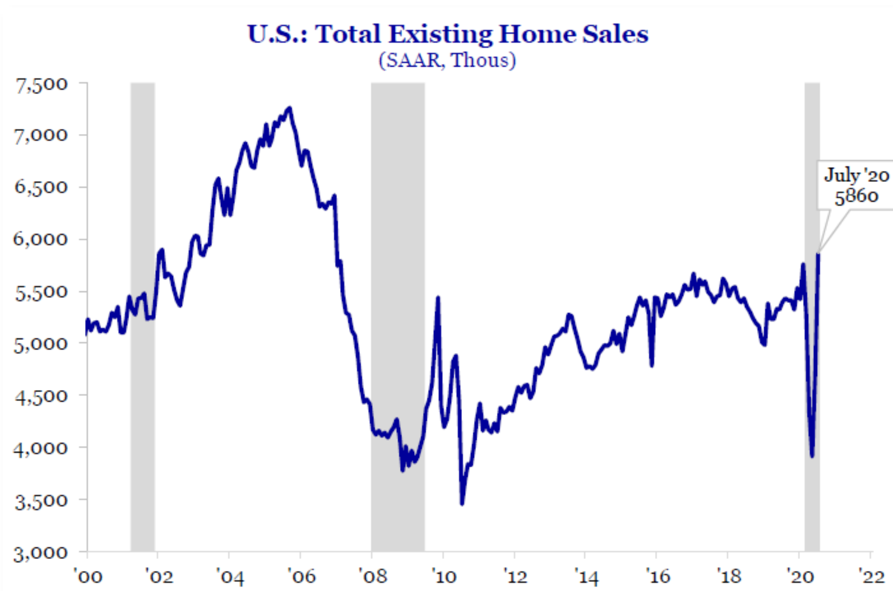
The Markets & the Economy - What We're Watching

Top Picks of the Week:

- US Housing soars with Americans flocking to re-enter the market
- Equity performance – signs of a rotation this week

Americans started to re-enter the housing market with US home builders starting construction on homes at a higher rate from the prior month, climbing by nearly 23% in July and 23% from a year ago. Additionally, home sales, and, separately, housing starts, have recovered very rapidly. While the coronavirus has wreaked havoc on many segments of the economy, this particular sector has rebounded to levels higher than pre-covid levels.

As shown in this chart[1], an interesting phenomenon is that despite a record long recovery in equities since the financial crisis of 2008, US housing has still not reached the strength it saw in the housing boom of 2004-2006. While we know, in hindsight, that certain elements of that boom (in the form of aggressive lending practices) were unsustainable, demographics still point to the need for more housing over time due to population growth.



Perhaps an interesting side effect of the pandemic is that mortgage rates are at all-time lows which increases affordability. This seems to have caught the attention of a powerful demographic group, Millennials. Millennials, also known as Generation Y, range in age from 24 to 39, and are the largest living adult generation, surpassing even baby boomers. According to the National Association of Realtors, millennials made up greater than half of all mortgage applications recently. Such a sustained trend would benefit many housing-related stocks. Given the pure size of this generation and the fact that they are now wielding their spending power, this could be a powerful economic trend for us to watch and perhaps, invest in.

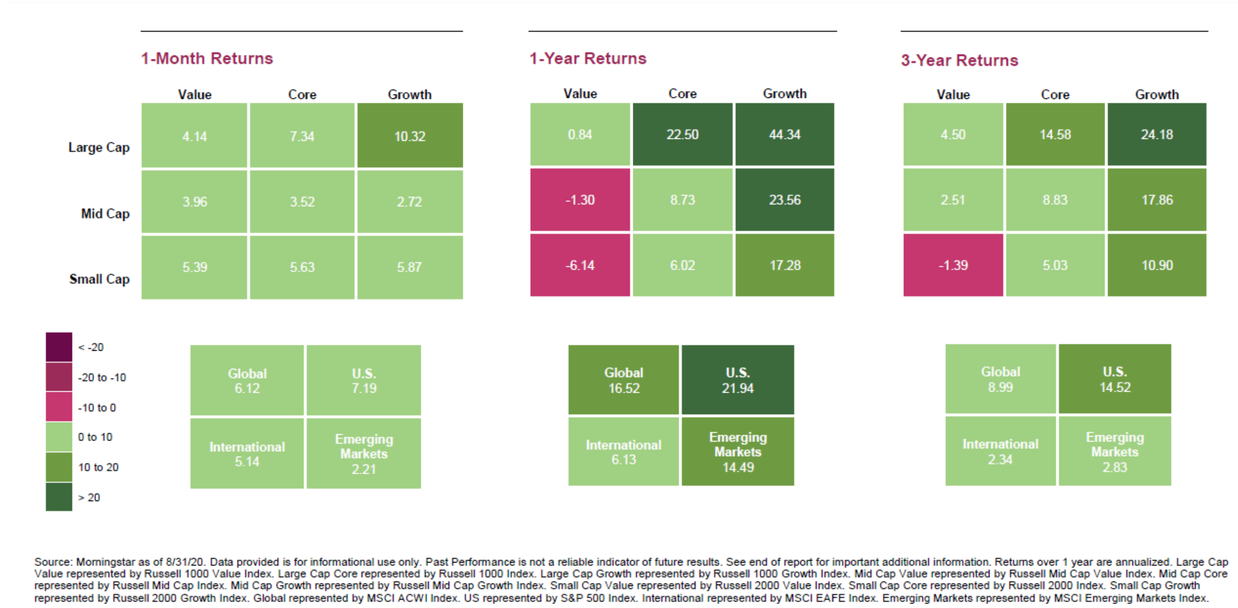
On Thursday of this past week, we saw the largest one-day sell-off since June. Stocks saw meaningful pressure with the major indexes all suffering their biggest pullbacks since June 11th. The Dow plunged 1,000 points, the S&P 500 fell 3.51%, and the Nasdaq fell nearly 5%. Tech stocks led the sell-off with Apple at the helm. Despite this one-day decline, the equity markets in 2020 continue to trade near their

[1] Image Source: Strategas

highs despite the existence of the pandemic. As of the close on 9/03/20, the S&P 500 was up 6.94% year to date.

One interesting factor in the equity market's performance has been the continued divergence between growth stocks and value stocks. Some stocks move higher because their valuation is too low, while others move higher because they are growing. We don't have a bias and typically want for our clients both growth and a reasonable valuation in their investments. However, the trend is important to consider, analyze, and understand.

As shown in this chart[2], over the past month, year, and 3 years, stock market performance has been driven by large US growth stocks. To put this into historical context, the chart illustrates that this situation is very extreme – the only time the divergence between growth and value stocks was wider



was the internet bubble in the late 90's. The point of this is not that one should expect a crash but, more so, to remind investors of the hazards of chasing markets or strong performing stocks. Investors got a stark reminder of this as the market saw a sharp reversal on Thursday as noted above. To understand the reversal yesterday, the Russell 1000 Growth Index was down 4.91% whereas the Russell 1000 Value Index, while still down, was only down 2.15%. This week could be an indicator of things to come and is something we are closely watching and analyzing.

For questions or more information, please reach out to your Relationship Manager. For additional insights from IMG experts, please visit our new website's Stock Market Insights page and follow us on LinkedIn.

Commentary is reflective as of the close Thursday, September 03, 2020.

[2] Image Source: Morningstar as of 8/31/20