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THE ECONOMY AT A GLANCE

ECONOMIC HIGHLIGHTS

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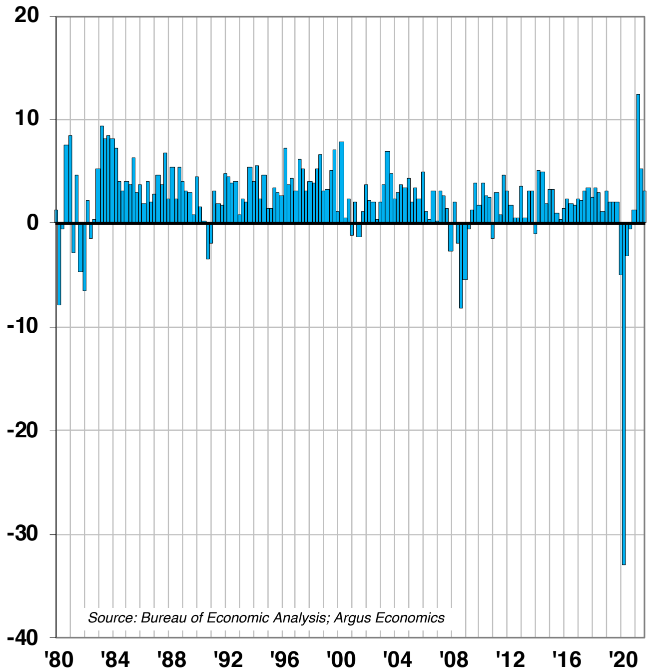
GDP QUARTERS SHOULD START TO IMPROVE

Did the U.S. economy decline at a 32.9% rate in 2Q20? Or did the 2Q20 economy fall 9.5% from the 1Q20 level? Both statements are correct. According to the U.S. Department of Commerce's first reading, the U.S. economy contracted at a 32.9% rate in 2Q20 -- as the nation shut down to combat the coronavirus. This is an annualized rate and is calculated over four quarters. However, the absolute level of the economy fell to $19.4 trillion from $21.6 trillion. Either way you look at it -- down 33% annualized, or missing $2.2 trillion -- the numbers are painful. The decline was the worst ever reported in 70 years of GDP record-keeping, and wiped out five years of growth. We think that 2Q marks the trough of the recession, and that the numbers will improve through year-end and into 2021. How rapidly they improve depends on the health of the country.

GDP TRENDS & OUTLOOK (% CHANGE)



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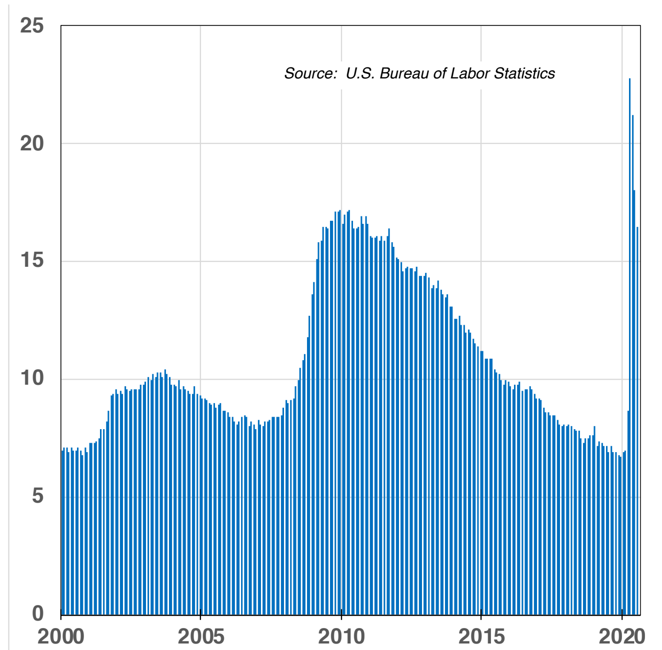
UNEMPLOYMENT RATE DROPS TO 10.2%

The U.S. economy added 1.8 million jobs in July, as companies continued to bring employees back to work. The unemployment rate dropped from 11.1% in June to 10.2%. Employment rose sharply in Leisure and Hospitality (one-third of the growth), Retail Trade (though retail employee levels are still 913,000 below February's count) and Health Services. Government (census) and Other Services (personal and laundry) also reported growth. The employment data remains fluid. The Labor Department recently reported that another 1.186 million people filed first-time unemployment claims, and that the total of continuing claims was 16.6 million. The broader U6 unemployment rate, which includes persons marginally attached to the labor force and part-time workers who want full-time jobs, stands at 16.5%. That's down from 18% last month but above last July's reading of 6.9%. We expect the unemployment rate to remain high through 2020 as the U.S. economy recovers slowly. The stock market is already looking ahead to that recovery, though. We also note that the VIX volatility index remains extremely high, and expect volatile trading conditions for an extended period.

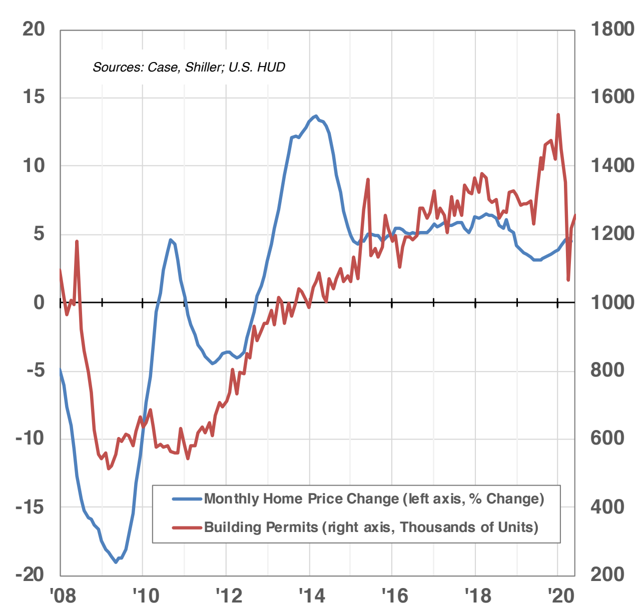
U6 UNEMPLOYMENT RATE (%)



HOUSING MARKET RECOVERING

The housing market -- a major pillar of U.S. economic growth before COVID-19 -- is starting to rebound after an initial slump related to the onset of the pandemic. Building permits, a leading indicator for the industry, peaked in January at 1.55 million units and are now down 19% (data through June). But they have risen 18% from their April low. Existing home sales, which were down 32% in May from January, have started to rise as stay-at-home orders have been lifted; they were up 20% month-to-month in June. Prices have held up -- so far. The S&P/Case-Shiller National Home Price Index is one of the most closely watched barometers of the housing market. Data for May 2020 showed that prices rose 4.5% year-over-year, up from 3.9% in January. Meanwhile, inventory levels are tight: currently there is a 4.7-month supply of existing homes for sale (the average range is 4.5-7.5 months), according to the U.S. Census Bureau. On the other side of the pandemic, we expect that demand for homes -- with yards between neighbors and no elevator buttons to press -- will again be strong.

HOUSING MARKET TRENDS

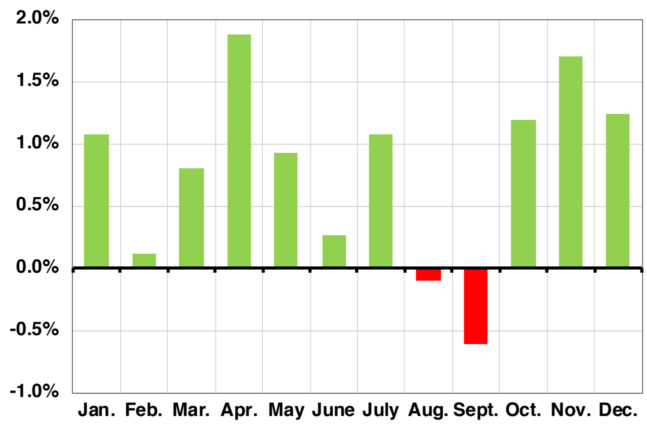


FINANCIAL MARKET HIGHLIGHTS

AUGUST A CHALLENGE FOR MARKETS

Our analysis of monthly returns going back to 1980 indicates that August is one of only two months (along with September) with an average loss. Now not every August is negative. The month has a "win percentage" of 55%, and as recently as August 2018, the S&P 500 increased 3.0%. But there have been some clunkers. Generally, August is a quiet month on Wall Street. Second-quarter earnings reports are mostly finished. The IPO market often goes into hibernation. Volume tends to be light. This August, volatility is likely to remain high as COVID-19 cases continue to rise and the U.S. presidential election moves into high gear. We continue to stress quality (balance sheets and management) as markets approach what has typically been a difficult two-month stretch.

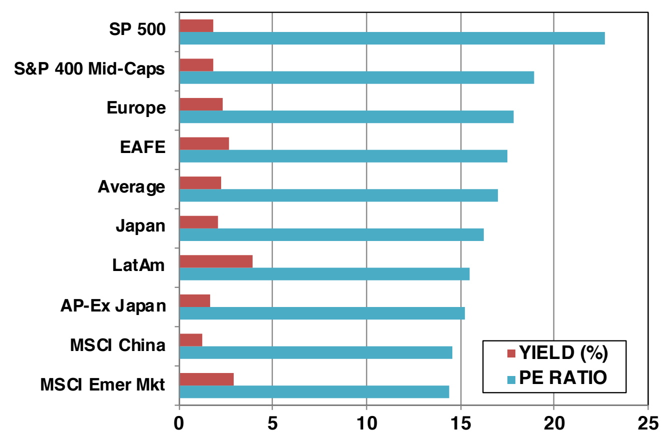
AVERAGE MONTHLY STOCK-MARKET APPRECIATION



U.S. STOCKS AT PREMIUM

U.S. stocks are more expensive than global stocks on numerous valuation metrics. The P/E ratio on the S&P 500 is 22.7, above the global average of 17 and the average of 14 for emerging markets. The U.S. price/sales ratio is 2.1, well above the global average of 1.2. The current dividend yield for the S&P 500 is 1.9%, versus a global average of 2.3% and a European average of 2.4%. One reason investors pay a higher price for North American securities is the transparency of the U.S. financial system. What is more, global returns can be volatile across individual countries given currency, security and political risks. Still, we recommend that growth investors have approximately 15%-20% of their equity allocations in international stocks to take advantage of the value.

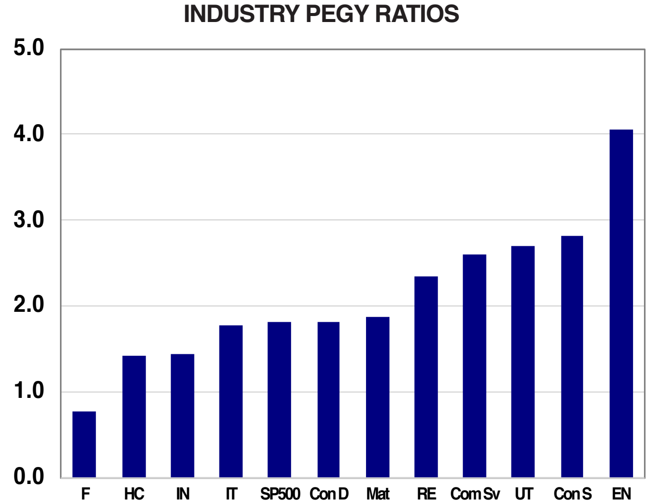
GLOBAL EQUITY VALUATION METRICS



VALUES IN HEALTHCARE, FINANCIAL AND IT

Investors hunting for stocks that balance long-term growth and value might look at the Financial, Healthcare and Technology sectors. These are a few of the groups selling for (price/earnings)/(growth+yield) ratios at or below the S&P 500's ratio of 1.8. To generate PEGY ratios, we use the P/E ratio for each sector based on forward 2021 earnings for the numerator. For the denominator, we average the growth rates for the past three years along with two years of forward estimates in order to achieve a less volatile earnings trend. Then we add the current yield to approximate total return. Premium-valued sectors with low growth rates include Energy, Materials and Consumer Staples. Our Over-Weight sectors include Healthcare, Communication Services, Utilities and Technology. Our Under-Weight sectors include Materials and Energy.

INDUSTRY PEGY RATIOS



ECONOMIC CALENDAR

Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
17-Aug	Empire Manufacturing	August	17.2	15.0	15.0	3.7
18-Aug	Housing Starts	July	1,186 K	1230	1,245 K	1,496 K
20-Aug	Leading Economic Indicators	July	2.0%	1.5%	1.1%	NA
	Philadelphia Fed BOS	August	24.1	21.0	21.0	NA
21-Aug	Existing Home Sales	July	4.72 mln.	5.50 mln.	5.40 mln.	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
1-Sep	ISM Manufacturing	August	54.2	NA	NA	NA
	Construction Spending	July	-0.7%	NA	NA	NA
2-Sep	Factory Orders	July	6.2%	NA	NA	NA
3-Sep	Trade Balance	July	50.7b	NA	NA	NA
	ISM Non-Manufacturing	August	58.1	NA	NA	NA
4-Sep	Non-Farm Payrolls	August	1763k	NA	NA	NA
	Manufacturing Payrolls	August	26k	NA	NA	NA
	Average Weekly Hours	August	34.5	NA	NA	NA
	Average Hourly Earnings	August	0.2%	NA	NA	NA
	Unemployment Rate	August	10.2%	NA	NA	NA