Intrinsic Investors

The Month in Review

August Takeaways

- *August surprised the equity markets with a solid 7% advance for the S&P 500.* Normally August is a dull month due to traders retreating to the Hamptons for late summer relaxation. The fact that so many people from New York escaped to their country houses after the outbreak of COVID-19 may mean they were getting bored and needed some extra excitement. We certainly got that! So much for the dog days of summer.

- *As investors adjust to the pandemic and recession, the bears will need to find a new pet project to spook investors.* Halloween is still over the horizon, but never fear, election season starts in full force after Labor Day. This year's contest promises to be full of chills, thrills and spills. Fortunately, we do not have to address politics in this space except to acknowledge the potential for mayhem in the markets.

- *Let us take a minute to review the investment landscape.* Stock market indexes have mostly recovered for the year with at least the market leaders trading in the black. Unfortunately, while the market leaders are doing well, the "troops" (read small/mid-caps) have a way to go to catch up. We are in a two-tier market, which means that things can go either way heading into the end of the year. The technical picture is also turning mixed.

- *I want to talk about inflation for a minute.* The Fed continues its balancing act between easy money and the threat of inflation in order to keep the recovery on track. While progress continues, we need to keep an eye on producer and consumer prices for signs of inflation. This topic does not get a lot of attention these days.

- *On the economic front,* we see ongoing positive data, with the July Institute of Supply Management (ISM) and Purchasing Manager's Index (PMI) moving higher for the third month. Manufacturing continues to recover. Most job losses came in the service sector; and so we will monitor this indicator for future growth or contraction.

- *Finally, if you are looking for something to keep an eye on moving forward, try our old friend the Volatility Index ($VIX).* As I have noticed previously, volatility was my main culprit leading up to this year's crash and this "perp" still bears (no pun intended) careful monitoring moving forward. The index is still on the high side from a historical viewpoint. *Stay tuned!*