Market Commentary

The Answer to a Widespread Question: FAAANM

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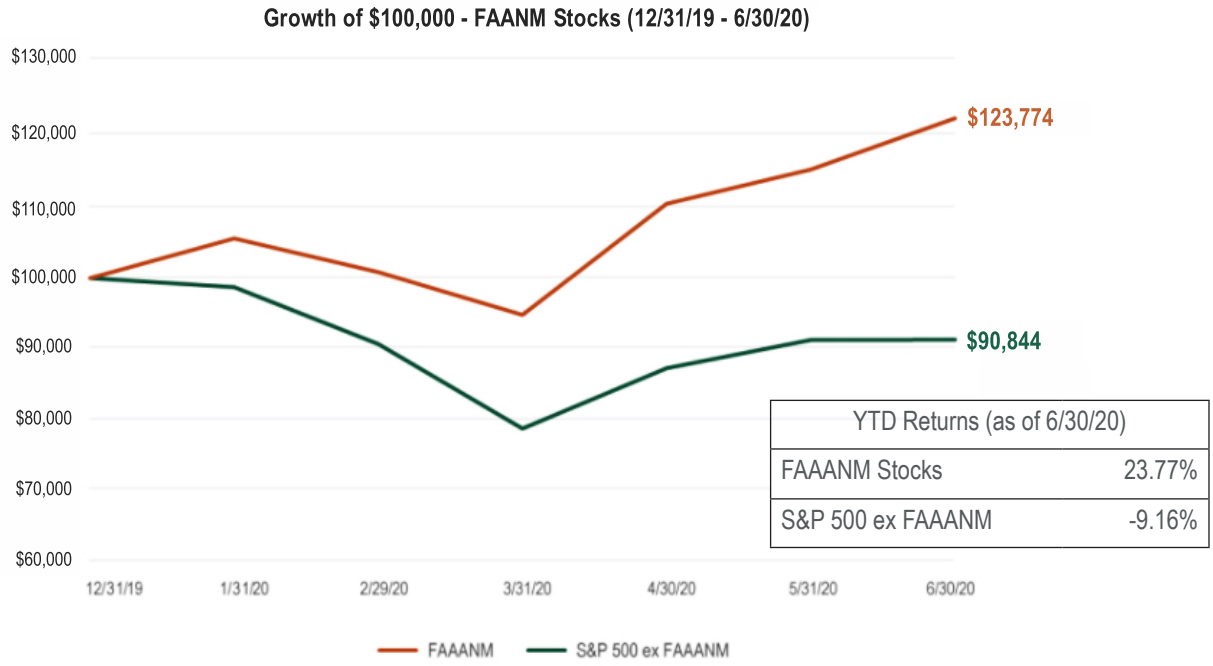
The Answer to a Widespread Question: FAAANM

One of the most common questions that we have heard over the past weeks and months is some version of this: "how has the stock market recovered to its pre-COVID levels"? On the surface, this move in the S&P 500 simply does not make sense and appears unsustainable.

Pulling back the covers we see some of the factors that are at play. Have you heard of FAAANM? If not, surely you are familiar with the stocks those letters reference, specifically Facebook, Amazon, Apple, Alphabet, Netflix (or should it be Nvidia?) and Microsoft. These mega-tech darlings have moved up sharply in 2020 as so many more Americans are spending time (aimlessly) scanning posts on Facebook, searching Google (Alphabet) for news updates, binge-watching Breaking Bad or Ozark on Netflix, ordering hand sanitizer (if it can be found) on Amazon and all while sitting on the couch with a new Apple iPad and data somehow finding its way into Microsoft clouds. Yes, 2020 is the year of COVID-19 and FAAANM.

Need more proof? Look at the chart below. Without these stocks, the S&P 500 has not recovered its losses for the year. Au contraire mon frere. That bellwether benchmark is down over 9% in the first half of 2020 while the FAAANM stocks are up nearly 24%.



YTD Returns (as of 6/30/20)	
FAAANM Stocks	23.77%
S&P 500 ex FAAANM	-9.16%

Past performance is no guarantee of future results.

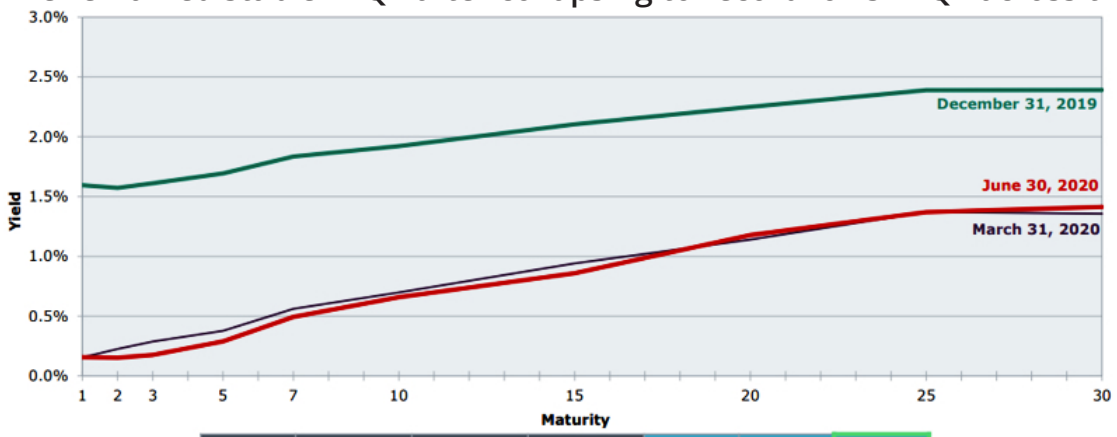
Source: AMG Distributors

Past performance is no guarantee of future results. Investors cannot directly invest in an index and unmanaged index returns do not reflect any fees, expenses or sales charges.

A Message From the Bond Market

The bond market is similarly maligned as the stock market ex-FAAANM. After starting the year at what were already quite low rates, the stampede to safety gave rise to elevated bond prices and tumbling interest rates. This all happened in March and not much has changed since then, as the chart of yield curves shows. The rate on the 10-year Treasury bond, for instance, rang in the New Year at 1.92%, slumped to an historic low of 0.70% by the end of March and has slipped a few basis points further since. The bond market has stalled out at these record low rates.

Yield curve remained stable in Q2 after collapsing to record lows in Q1 across the curve.

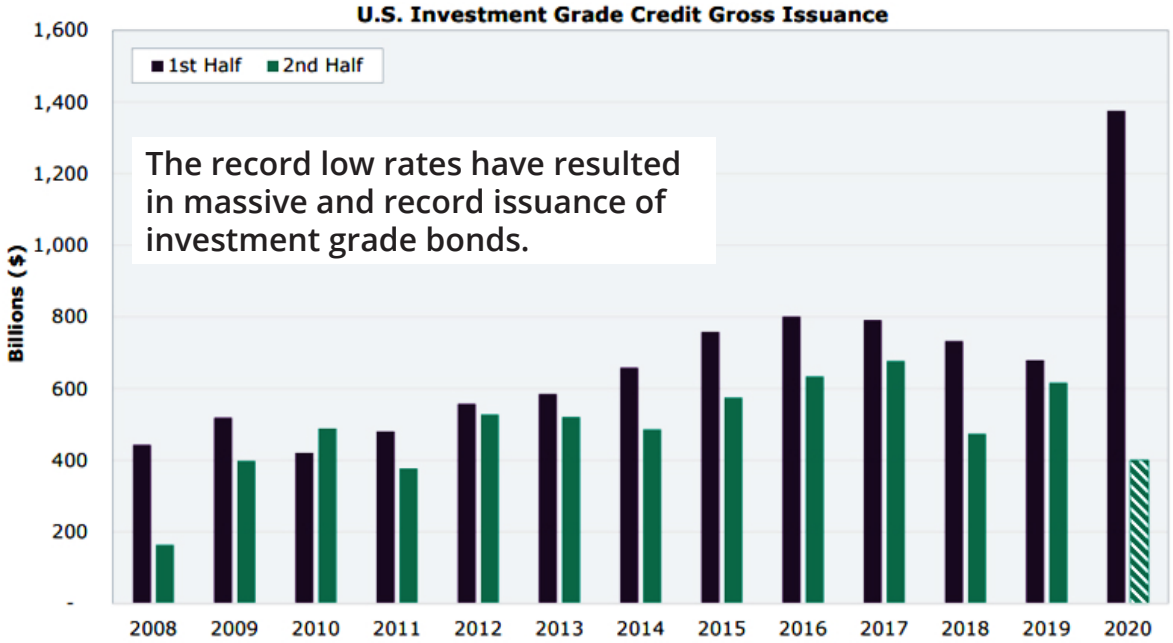


Maturity	December 31, 2019	March 31, 2020	June 30, 2020	Q1 Change	Q2 Change	YTD Change
1	1.60%	0.16%	0.16%	-1.44%	0.00%	-1.44%
2	1.57%	0.23%	0.15%	-1.34%	-0.08%	-1.42%
3	1.61%	0.29%	0.18%	-1.32%	-0.11%	-1.43%
5	1.69%	0.38%	0.29%	-1.31%	-0.09%	-1.40%
7	1.83%	0.56%	0.50%	-1.27%	-0.06%	-1.33%
10	1.92%	0.70%	0.66%	-1.22%	-0.04%	-1.26%
20	2.25%	1.14%	1.18%	-1.11%	0.04%	-1.07%
30	2.39%	1.36%	1.41%	-1.03%	0.05%	-0.98%

Source: Bloomberg
Data as of: 6/30/20

Past performance is no guarantee of future restults

We believe this is good news for borrowers, a headline that has not been lost on opportunistic investment bankers. They have burned up the phone lines calling all corporations with the chance to lock in once-in-a-lifetime low rates. Bond issuance in the first half of 2020 reached nearly $1.4 trillion with a "T", more than doubling the levels seen in most years since 2008. In a year when the CFOs of most corporations are unwilling to project how much cash they can generate in the next few months, the frenetic pace seems to defy common sense.



Credit Supply Through 6/30 ($Billions)			
	YTD 2020	YTD 2019	YoY% Change
Gross Supply	1,375.7	679.9	102%
Net Supply	864.0	200.6	331%

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Source: Guggenheim, J.P. Morgan

Summary

2020 is the year when the unemployment rate reversed from a 50-year record low to a 90-year record high in the span of 60 days. The risks seemingly came out of nowhere and the hit to the economy was swift and is ongoing. Despite all that, July 2020 continued a 4-month rally for stocks that has seemingly defied gravity. That revival, though, we argue can be explained in 6 letters: FAAANM. Without those, stocks are in the red and the flee into "safe" bonds reflects the nervousness that still defines the investment (and general) landscape. While our strategies have historically participated in the upward trends, our rules-based quantitative decisions also identify sells, as they did in February and early March. In our view, using long-proven, rules-based investment disciplines is an ideal way to navigate markets that seem to defy logic.

Terri Spath, CFA, CFP®

Chief Investment Officer & Portfolio Manager

Terri Spath is Chief Investment Officer at Sierra Investment Management. She jointly oversees the investment activities of the organization and appears frequently in the financial press.

Definitions

The **S&P 500 Index** is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The indicies shown are for informal purposes only and are not reflective of any investment. It is not possible to invest in an index.

3420 Ocean Park Boulevard, Suite 3060 | Santa Monica, CA 90405 | Sales: (844) 727-1813

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