



In this week's Highlights, Ryan Grabinski discusses how the recovery continues albeit slowly, negotiations are breaking down in Washington, and market returns remain top heavy.

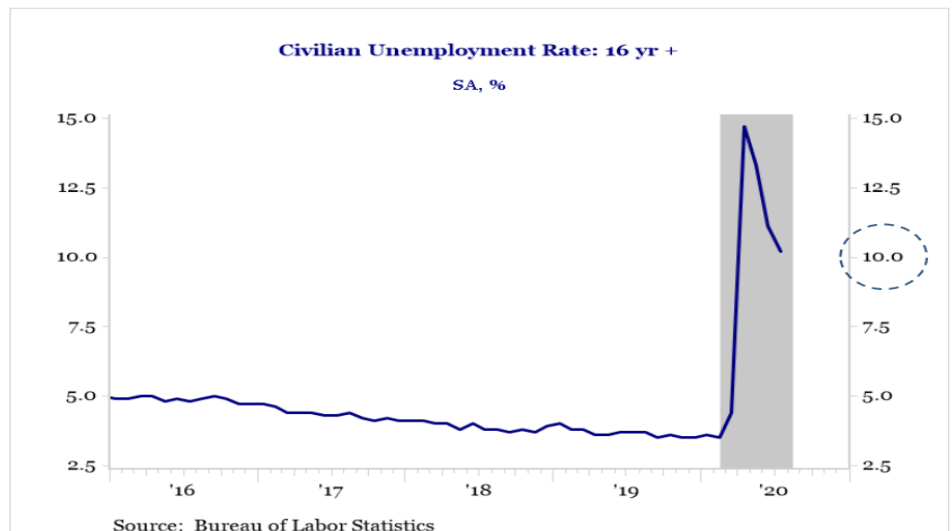


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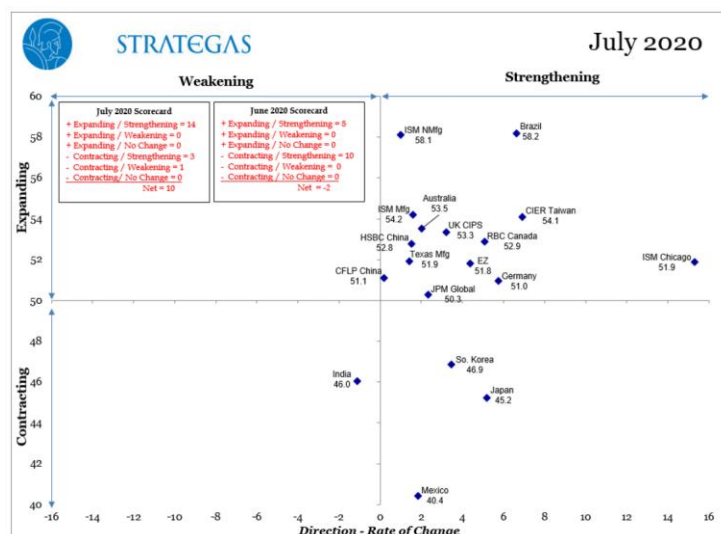
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## Recovery Continues Albeit Slowly

- The unemployment rate fell to 10.2% in July, though lingering measurement issues could add +1% point to that number according to the BLS. Still, we are moving in the right direction m/m. A more concerning item is that labor force participation has stalled out at 61.4%.

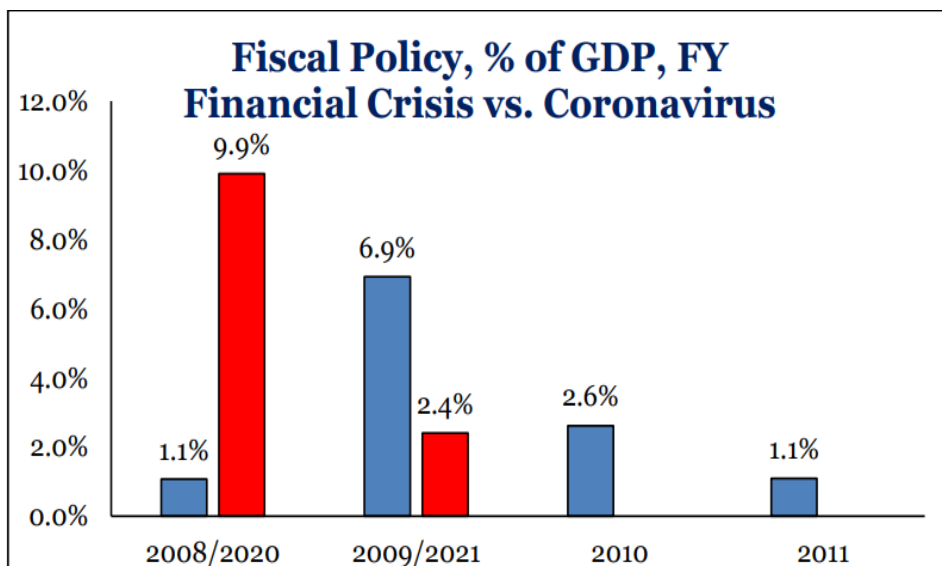


- The global recovery is now a full-fledged work in progress. Based on the July survey results, 14 of the 18 surveys we follow grew at an average PMI of 53.1. The remaining four surveys grew at a 44.6 average. Even the slow-to-recover German (51.0) economy strengthened for the first time in 18 months.

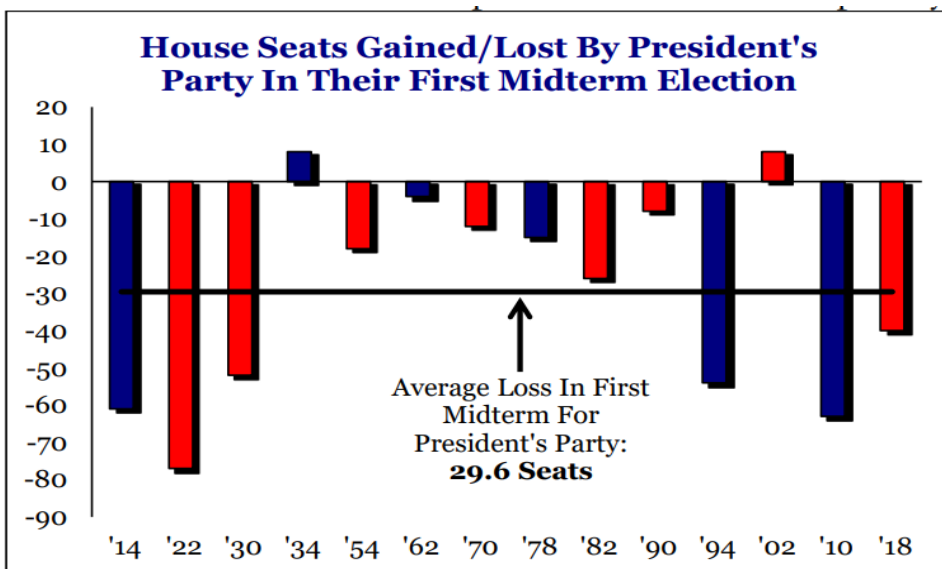


## Stimulus Negotiations Are Not Going Well

- In our view, the thesis for a \$1.5 trillion package has not changed. Leadership in both parties needs a deal. Rank-and-file Republican senators up for reelection need a deal. If talks break down, these senators will likely pick up the pieces. We sound like a broken record, but it is important: failure is often needed before a deal can be reached. Equity market pressure will help.

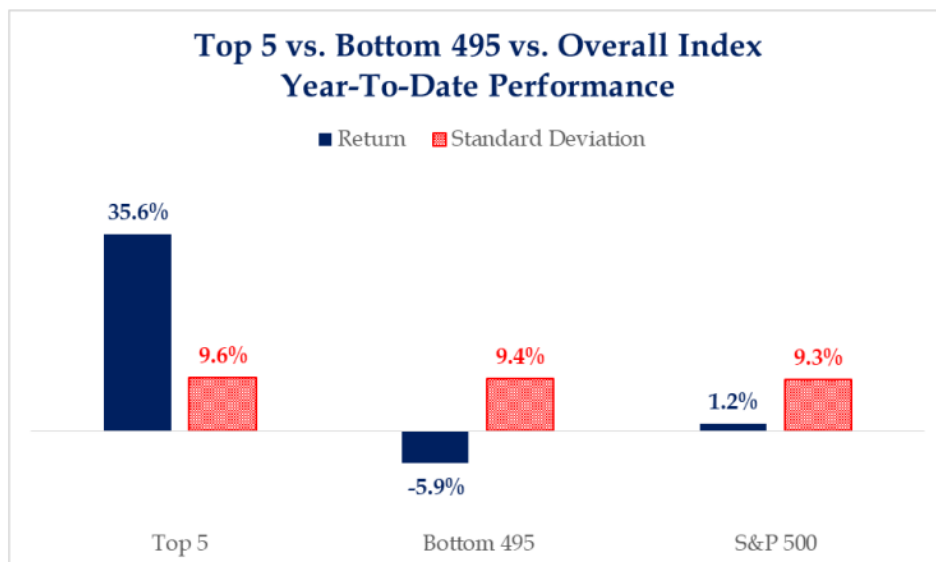


- The Democrats get rid of the filibuster, which would then require a simple majority to pass legislation in the Senate. This is a very big legislative change, which would increase the chances of legislation passing that stood little chance of passing previously. The procedural change may impact company valuations.

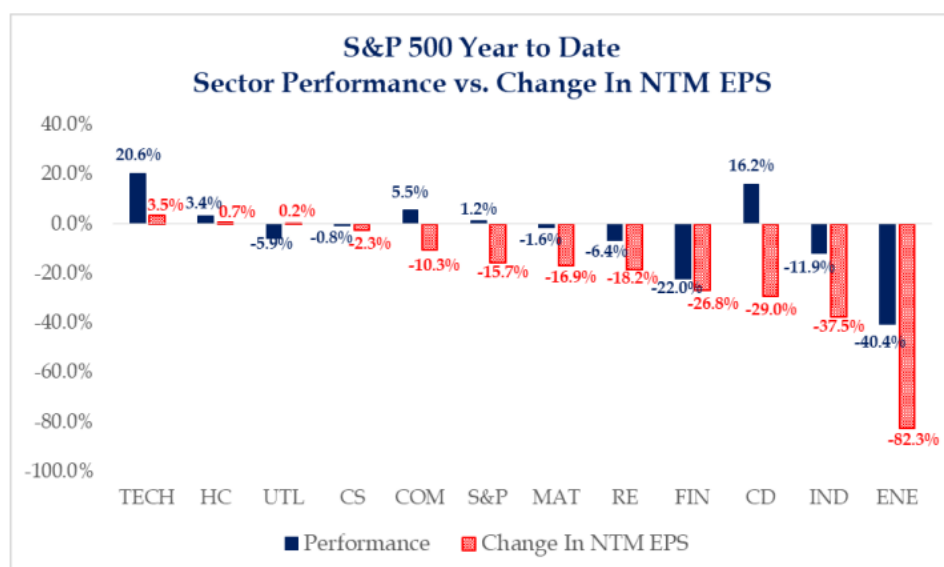


## Market Returns Are Top Heavy

- The five largest stocks in the S&P 500 have, for the most part, driven returns this year. As the chart below indicates, they are up +35% while the remaining 495 companies are down -6%. The real question this raises is whether the outsized weights of the very largest stocks in the S&P renders the diversification argument that lies at the heart of the case for passive investments moot.



- Year to date, the technology sector has garnered much attention from investors for its quick recovery following the sell-off in March. However, the disconnect between the Discretionary sector's performance and its fundamentals is more alarming.



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