

Weekly Market Update



General Market News

- After experiencing steep declines recently, Treasury yields remained in a tight range last week. While yields did reach cycle lows—2.05 percent for the 10-year and 1.73 percent for the 2-year—both rates were up slightly higher on Monday at 2.13 percent and 1.86 percent, respectively. The 30-year opened at 2.61 percent on Monday after being as low as 2.52 percent last week.
- Global markets rebounded with their best week of the year, as Jerome Powell and the Federal Reserve (Fed) stated that they will “act as appropriate to sustain the expansion.” The market continued to rally on Friday after a poor employment report led investors to believe that the Fed will be more inclined to support activity through low rates. In fact, the Fed funds futures are indicating an 80 percent chance of a rate cut at the July meeting. Another potential reason for the rebound last week was oversold conditions.
- Materials, technology, and consumer staples were among the top performers on the week. The technology sector bounced back nearly 6 percent after a strong sell-off, which was due to the House Judiciary Committee’s announcement that it would launch an investigation into the competition in digital markets. The lagging sectors were communication services, utilities, and consumer discretionary, although all of the sectors posted strong gains for the week.
- On Monday, we saw the release of the Institute for Supply Management (ISM) Manufacturing index. This gauge of manufacturer optimism declined from 52.8 in April to 52.1 in May. Economists had expected to see a modest uptick to 53. Although this decline was disappointing, this is a diffusion index, where values greater than 50 represent expansion. So, manufacturers are still expected to show some growth at current levels.
- On Tuesday, the ISM Nonmanufacturing index made up for the disappointing manufacturing results. It rose from 55.5 in April to 56.9 in May. This was a solid improvement in sentiment for the service sector and leaves the index at levels that are typically consistent with 2 percent annualized gross domestic product growth.
- Thursday saw the release of April’s international trade report, which showed a trade deficit of \$50.8 billion for the month. This was a slightly larger gap than economists expected. Both imports and exports fell sharply, as increasing trade war-related pressure is starting to show up in the hard data.
- Finally, on Friday, the May employment report was released. Only 75,000 new jobs were added during the month, against expectations for 175,000. Unemployment remained unchanged at 3.6 percent. All in, this was a concerning report, as strong job growth has been a major driver of overall economic growth in the current expansion.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	4.46	4.46	15.68	5.83
Nasdaq Composite	3.91	3.91	17.26	2.51
DJIA	4.77	4.77	12.67	5.39
MSCI EAFE	3.24	3.24	11.55	-3.94
MSCI Emerging Markets	1.04	1.04	5.26	-3.94
Russell 2000	3.36	3.36	12.94	-7.92

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.36	5.17	7.37
U.S. Treasury	0.33	4.57	7.24
U.S. Mortgages	0.26	3.70	6.36
Municipal Bond	0.20	4.92	6.74

Source: Morningstar Direct



What to Look Forward To

On Tuesday, the Producer Price Index for May will be released. Economists expect 0.2 percent month-over-month growth. That result should leave the annual producer inflation figure at 2 percent, down from the 2.2 percent rate seen in April.

The Consumer Price Index is set to be released on Wednesday. It is expected to show modest monthly growth of 0.1 percent. The headline measure of consumer inflation is likely to show 1.9 percent year-over-year growth, which is down from April's level. Inflation growth has slowed over the past few months, and further declines are possible.

On Friday, we will receive May's industrial production report. Economists expect 0.2 percent growth, following April's 0.5 percent decline. Much of the drop in April was due to lowered utilities output, which is expected to reverse in May. There may be some risk to the downside here, given the decline we saw in the ISM Manufacturing index.

Also on Friday, the University of Michigan consumer sentiment survey will be released. The index is expected to drop from 100 to 98. Although any decline would be disappointing, the index currently sits near 15-year highs, so this mild pullback would not be a concern.

What to Look Forward To (continued)

Finally, we will receive the advance report for May's retail sales on Friday. Economists expect a strong rebound of 0.7 percent growth in May, following a surprising decline

in April. Given the high level of consumer confidence, strong spending growth should follow.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. Rev. 06/19.

Authored by the Investment Research team at Commonwealth Financial Network.