

# Weekly Market Update



## General Market News

- Global health concerns have led to heightened uncertainty in the economy and markets over the past couple of weeks. The 10-year Treasury yield has bounced around from 1.90 percent, to 1.50 percent, to 1.70 percent, and now back to 1.56 percent as of Monday morning. The 30-year yield is back at more than 2 percent, and the short end of the curve remains slightly inverted, with the 2-year yield at 1.38 percent and the 3-year yield at 1.36 percent.
- Global markets rallied last week, with the three major domestic indices leading the way. The domestic indices rebounded due to subsiding concerns about the spread of the coronavirus, as most cases remain isolated to China and specifically the Hubei province. On Wednesday, the World Health Organization announced a decline in the number of new cases—the first since the outbreak began—sparking hope that it had reached its peak.
- The top-performing sectors on the week included technology, materials, and health care. Health care was supported by strong earnings results from Cardinal Health and McKesson, which were both up by more than 9 percent. The worst-performing sectors were utilities, energy, and REITs.
- On Monday, the Institute for Supply Management (ISM) Manufacturing index came in at 50.9, against expectations for 48.5. For this diffusion index, values greater than 50 indicate expansion. This was a six-month high for the index, showing that the manufacturing sector is starting to rebound after several disappointing months.
- On Wednesday, the ISM Nonmanufacturing index was released. It increased to 55.5, which was also against expectations for 55.1. The service sector is a much bigger part of the U.S. economy, and this result indicates continued strength.
- On Friday, the employment report was released. About 225,000 jobs were added against expectations for 165,000. This resulted in a six-month average gain of more than 200,000 jobs. The prior month was also revised slightly higher. The participation rate edged up as more people entered the workforce, with wage growth rising 3.1 percent year-over-year. As a result of the increase in workers, the unemployment rate increased from 3.5 percent to 3.6 percent.

## Market Index Performance Data

### EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	3.21	3.21	3.17	25.32
Nasdaq Composite	4.09	4.09	6.20	31.85
DJIA	3.06	3.06	2.15	18.65
MSCI EAFE	1.86	1.86	-0.27	15.84
MSCI Emerging Markets	2.75	2.75	-2.04	8.09
Russell 2000	2.67	2.67	-0.62	11.58

Source: Bloomberg

### FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	-0.07	1.86	9.42
U.S. Treasury	-0.28	2.16	8.51
U.S. Mortgages	0.13	0.83	6.45
Municipal Bond	-0.11	1.69	8.24

Source: Morningstar Direct



## What to Look Forward To

On Thursday, the Consumer Price Index for January is set to be released. Consumer prices should rise by 0.2 percent during the month, which would translate to year-over-year growth of 2.4 percent. If this estimate holds, it would represent a slight increase in consumer inflation on a year-over-year basis, up from the 2.3 percent inflation rate we saw in December. Core inflation, which strips out volatile food and energy prices, is expected to slow on a year-over-year basis. In January, core inflation should increase by 0.2 percent, but that would translate to only 2.2 percent year-over-year, down from 2.3 percent in December. Inflation, which remains well contained

despite three interest rate cuts by the Federal Reserve last year, does not appear to be a major concern at this time.

Friday will see the release of January's retail sales report. Both headline and core sales are expected to show a solid 0.3 percent increase, supported by increased consumer confidence and mild weather in January. This result would mark the fourth straight month of sales growth, following a surprise decline in September. Consumer spending was the major driver of gross domestic product growth last year, so a strong start to the year would bode well for economic growth.

**What to Look Forward To (continued)**

Friday will also see the release of December's industrial production report. Economists expect to see production fall by 0.2 percent during the month, driven by a slowdown in utilities output caused by the mild weather. This was the fifth warmest January on record, and warmer weather typically leads to less energy consumption during the winter. Manufacturing output is set to remain flat during the month. Given last week's better-than-expected manufacturer confidence report, however, output may provide a surprise to the upside. If estimates are accurate, this report would be relatively toothless, given the temporary impact of the warm January.

Finally, we'll finish the week with the first reading of the University of Michigan consumer confidence survey for February.

Confidence is set to decline slightly from 99.8 in January to 98.9 in February. Traditional drivers for confidence remain healthy, with markets near all-time highs and January's employment report coming in better than expected. But it remains to be seen how the emergence of the coronavirus from China will affect consumer sentiment. Confidence increased in January despite the initial reports of the virus during the month. The continued spread of the virus adds uncertainty that could negatively affect consumer confidence in the U.S. Consumer confidence sits at an eight-month high, however, which is an impressive turnaround after hitting a three-year low in August. Accordingly, this modest anticipated decline is nothing to worry about for the time being.

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. 02/20.

Authored by the Investment Research team at Commonwealth Financial Network.