# Weekly Market Update

## General Market News

- Last week marked a historical event in the U.S. treasury market, as the entire yield curve moved significantly lower. The 10-year Treasury yield now stands at 0.41 percent, but it was as low as 0.31 percent late last week—and it stood at 1.60 percent three weeks ago. The 30-year yield is now at 0.85 percent, and the 2-year yield stands at 0.25 percent. The Federal Reserve (Fed) cut rates in an intra-meeting move and will likely drop rates again when it meets on March 18.

- Aside from the Russell 2000, global markets eked out gains in a volatile week that was highlighted by a significant pickup in coronavirus cases, political action on Super Tuesday, and a change in monetary policy.

- Joe Biden took over the lead from Bernie Sanders in the race for the Democratic nomination. Meanwhile, Fed Chair Jerome Powell declared a 50-basis-point (bps) cut to the federal funds rate, which brought the range down from 1.50 percent–1.75 percent to 1 percent–1.25 percent. Equity markets reacted negatively, as many saw this as a presumptive move that stoked already elevated fears over the effects of the coronavirus.

- The top-performing sectors on the week included the bond proxies in utilities, consumer staples, and REITs. In fact, the S&P 500 dividend yield crossed above that of the 30-year U.S. Treasury for the first time since 2008. This is a sign of fear in the equity markets, indicating investors would rather take the lower cash flow of bond-like investments than risk the potential loss of principal associated with equity investments. Health care was also among the top performers. The worst-performing sectors were energy, financials, and industrials, as growth fears stoked concerns about oil demand and support for industrials.

- Turning to economic news, we started the week with Monday's release of the Institute for Supply Management (ISM) Manufacturing index for February. This measure of manufacturer confidence fell from 50.9 in January to 50.1 in February, against expectations for a more modest decline to 50.5. This is a diffusion index, where values above 50 indicate expansion, so the index is still pointing toward growth, albeit at a slow rate. This decline can be attributed largely to worries about the spread of the coronavirus, with manufacturers citing uncertainty along global supply chains as their primary concern. Despite the disappointing result for the month, this is still the second-best reading for

## General Market News (continued)

the index in seven months and marks the second straight month where we have been in expansionary territory, so things could certainly be worse. We'll continue to monitor this important gauge of manufacturer confidence to see if the uncertainty created by the coronavirus continues to serve as a headwind in March.

- On Wednesday, the ISM Nonmanufacturing index for February was released. This survey measures confidence for the service sector of the economy. It rose from 55.5 in January to 57.3 in February, against expectations for a decline to 54.8. As was the case with the manufacturing survey, this is a diffusion index, where values above 50 indicate expansion. This better-than-expected result brought the index to a 15-month high and helped calm concerns that business confidence would fall sharply due to the spread of the coronavirus in February. Despite the decline in manufacturer confidence during the month, the service sector accounts for the vast majority of economic output, so the jump in service sector confidence was more than enough to offset the decline for manufacturers. In fact, the composite index, which combines manufacturer and nonmanufacturer confidence, now sits at a 12-month high—another positive sign for business investment. While we can reasonably expect to see confidence fall in March, given the continued spread of the coronavirus, this update shows solid fundamentals for the economy to start the year.

- On Friday, January's international trade report was released. The trade deficit declined by more than expected during the month, from a revised $48.6 billion in December to $45.3 billion in January. A modest 0.4 percent drop in exports was more than offset by a 1.6 percent decrease in imports during the month. The trade deficit fell in 2019 for the first time in six years, which added to gross domestic product growth in the fourth quarter. But this narrowing was caused by imports falling faster than exports, rather than from faster export growth. Looking forward, trade data is expected to be volatile, given the effects of the global spread of the coronavirus.

- Finally, we finished the week with Friday's release of the February employment report, which blew away expectations. Approximately 273,000 jobs were added during the month, against forecasts for 175,000. This brought the unemployment rate down to 3.5 percent, which ties a post-recession low. The six-month moving average for new job growth now sits at a four-year high of 231,000, which goes to show the strong rebound in hiring we saw in the second half of 2019 and start of the new year. This result was driven in large part by a surge in construction-related hiring, which was in turn boosted by the strong housing market and the warmer-than-average weather during the month. Overall, this was a very strong report, which reinforces the message that the economy was seeing strong fundamental growth before concerns surrounding the global spread of the coronavirus near month-end caused market mayhem.

## Market Index Performance Data

### EQUITIES

| Index | Week-to-Date % | Month-to-Date % | Year-to-Date % | 12-Month % |
|---|---|---|---|---|
| S&P 500 | 0.65 | 0.65 | –7.67 | 10.26 |
| Nasdaq Composite | 0.12 | 0.12 | –4.25 | 16.76 |
| DJIA | 1.79 | 1.79 | –8.95 | 4.02 |
| MSCI EAFE | 0.33 | 0.33 | –10.64 | 0.44 |
| MSCI Emerging Markets | 0.69 | 0.69 | –9.06 | –0.55 |
| Russell 2000 | –1.81 | –1.81 | –12.96 | –3.50 |

*Source: Bloomberg*

### FIXED INCOME

| Index | Month-to-Date % | Year-to-Date % | 12-Month % |
|---|---|---|---|
| U.S. Broad Market | 1.88 | 5.71 | 13.31 |
| U.S. Treasury | 2.81 | 8.12 | 14.78 |
| U.S. Mortgages | 0.48 | 2.23 | 7.63 |
| Municipal Bond | 0.26 | 3.38 | 9.46 |

*Source: Morningstar Direct*

## What to Look Forward To

On Wednesday, the Consumer Price Index for February is set to be released. Economists expect consumer prices to remain flat for the month, which would bring year-over-year inflation down to 2.2 percent from January's rate of 2.5 percent. This anticipated slowdown in headline inflation would be largely due to the drop in gas prices in February. The core inflation figure, which strips out the impact of volatile food and energy prices, is set to increase by 0.2 percent for the month and 2.3 percent on a year-over-year basis, matching January's results.

Thursday will see the release of the Producer Price Index for February. Economists are forecasting a 0.1 percent decrease in headline producer prices for the month, which would lead to a 1.8 percent increase year-over-year. As was the case with consumer inflation, the large decline in gas prices in February is expected to be a headwind for producer inflation. Core producer inflation should increase by 0.2 percent during the month and 1.7 percent year-over-year, in line with January's levels. Inflation has remained largely constrained despite 2019's three interest rate cuts. Still, we'll have to wait to see if the surprise 50 bps cut in March leads to faster inflation.

### What to Look Forward To (continued)

On Friday, the preliminary reading of the University of Michigan consumer confidence survey for March is set to be released. It is expected to decline from 101 in February to 95 in March, as concerns about the coronavirus are likely to weigh heavily on consumers. The February reading for this index included responses through February 25, so the coronavirus had some effect on last month's report. Given the escalating situation and the continued stock market volatility, March's report will provide a more thorough view on the effect of the health crisis on consumer confidence. If the forecasts prove to be accurate, the index would still be well above the low of 89.8 seen in August 2019. So, while a drop would be disappointing, it would not necessarily indicate that consumer spending is expected to fall as swiftly as some economists fear. Rising confidence levels typically support faster spending growth, so it's important to monitor this area of the economy. Consumer spending accounts for roughly two-thirds of all economic activity.



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