MARCH 16, 2020

Weekly Market Update

General Market News

- Yields continued to show volatility throughout last week. The 10-year Treasury yield rose from a Monday low of 0.34 percent to as high as 0.98 percent on Friday. A surprise rate cut from the Federal Reserve (Fed) on Sunday, along with additional quantitative easing plans (more below) spooked investors, leading the 10-year Treasury back down to 0.77 percent at Monday's open.
- Global markets were hit hard last week, as the coronavirus outbreak outside of China continued to escalate. Cases accelerated in Italy, Spain, Germany, France, and the U.S. Additionally, the energy sector was dealt a devastating blow, with oil dropping by roughly 25 percent on Monday alone, as Russia and Saudi Arabia feuded over production cuts. Energy was among the worst-performing sectors on the week, down by just under 25 percent. It was followed by utilities, materials, industrials, consumer discretionary, and financials, which were all down between 10 percent and 15 percent.
- Those sectors that held up the best were technology, health care, communications services, consumer staples, and REITs. Consumer staples was bolstered by shoppers rushing to grocery stores to grab toilet paper and essentials. On the other hand, consumer discretionary was hurt by the implementation of social distancing, which banned gatherings and forced restaurants to offer delivery and takeout only. On the bright side, Apple stores reopened in China, and there was a significant reduction in the number of coronavirus cases in South Korea.
- On Tuesday, the Consumer Price Index for February was released. Consumer prices increased by a modest 0.1 percent during the month, against expectations for no change. Core inflation, which strips out the impact of volatile food and energy prices, showed a 0.2 percent increase, as expected. This brought year-over-year headline and core inflation to 2.3 percent and 2.4 percent, respectively.
- On Wednesday, February's Producer Price Index report was released. Headline producer prices fell by 0.6 percent, against expectations for a 0.1 percent decline. This brought year-over-year producer inflation down to 1.3 percent, well below the 1.8 percent that was expected. Core inflation was also weak, with a 0.3 percent monthly decline, which brought the year-over-year pace of core inflation down to 1.4 percent. Inflation remains constrained, and we expect to see further declines, as the effects of the spread of the coronavirus and the lowered gas prices in February continue to be a headwind for inflation growth.
- The preliminary reading of the University of Michigan consumer sentiment survey for March was released on Friday. Consumer confidence fell by less than expected, dropping from 101 in February to 95.9 in March, against expectations for a decline to 95. Concerns about the spreading coronavirus and the measures being taken to combat the disease weighed heavily on consumer minds. While this result was better than expected, it is likely we will see further declines in confidence given the escalating nature of the outbreak.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–8.73	–8.13	–15.73	–1.55
Nasdaq Composite	–8.14	–8.03	–12.04	4.29
DJIA	–10.24	–8.63	–18.28	–7.61
MSCI EAFE	–18.36	–18.08	–27.05	–18.74
MSCI Emerging Markets	–11.92	–11.31	–19.91	–12.82
Russell 2000	–16.44	–17.95	–27.27	–20.76

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–3.17	2.36	9.60
U.S. Treasury	–1.93	6.03	12.53
U.S. Mortgages	–1.18	1.03	6.12
Municipal Bond	–4.27	–1.03	4.65

Source: Morningstar Direct

What to Look Forward To

The data releases over the past few weeks are primarily backward looking. As such, they've largely struggled to reflect the constantly changing impact of the coronavirus pandemic. On Sunday, however, we were drawn back into the present when the Fed announced a surprise rate cut, amid a suite of measures designed to support the economy in these trying times. Rather than waiting for the release of the Federal Open Market Committee rate decision scheduled for this Wednesday, the Fed decided to cut the federal funds rate by a full point, from a range of 1 percent to 1.25 percent down to 0 percent to 0.25 percent. This cut was larger than the 50-basis points cut economists had forecast, but it was largely in line with market expectations. The Fed also announced a return to quantitative easing, with a commitment to purchase at least $500 billion in Treasury securities and an additional $200 billion in mortgage-backed securities over the next few months. These actions were taken in order to help U.S. businesses and consumers weather the storm for the upcoming months. Nonetheless, the equity markets were not fully reassured by the move, and they opened up in negative territory today. While the tailwind from lower

What to Look Forward To (continued)

rates and additional liquidity should support the economy, continued market volatility remains likely until progress toward halting the spread of the coronavirus is made.

Tuesday will see the release of February's retail sales figure. Sales are expected to show 0.2 percent growth during the month, which would be a solid result. Falling gas prices are expected to be a headwind for overall sales, as evidenced by the anticipated 0.4 percent increase for retail sales that exclude auto and gas. If the estimates hold, February would mark the fifth straight month with retail sales growth. Consumer spending was the primary driver of economic growth in 2019, so these continued positive results to start the year are encouraging. But with declining confidence and rising concerns about the spread of the coronavirus, future sales are expected to slow.

February's industrial production report will also be released on Tuesday. Production is expected to show a strong 0.4 percent increase during the month, following a 0.3 percent decline in January. Production was negatively affected by the warm weather during January, which limited demand for utilities output. This trend has since reversed, which should support faster growth in February. Manufacturing output is set to increase by 0.3 percent, following a modest 0.1 percent decline in January. Manufacturer confidence levels were in expansionary territory to start the year, which typically leads to additional output growth. While the expected rebound in February would be a welcome sign, manufacturer confidence and output are expected to be negatively affected by the spread of the coronavirus. These indicators will bear watching going forward.

Tuesday will also see the release of the National Association of Home Builders Housing Market Index for March, which is set to remain unchanged at 74. This result would leave the index two points off the recent 20-year high of 76 attained in December 2019. Home builder confidence increased dramatically throughout 2019, rising from a three-year low of 58 set in December 2018. Declining mortgage rates and the associated increase in prospective home buyers gave builders more confidence, especially in regions with constrained supply. Home builders have responded by building more new homes, which in turn has helped stimulate the housing sector.

Speaking of new construction, on Wednesday, February's building permits and housing starts reports will be released. Both are expected to decline, with permits set to fall by 3.2 percent and starts set to fall by 4.2 percent. These measures can be volatile on a month-to-month basis. The expected results would represent a modest decline, given the large gains seen in both starts and permits over the past year. Builders have been scrambling to meet additional buyer demand in regions with constrained supply, supported by high levels of confidence. If estimates are accurate, permits would still be at their second-highest monthly level since 2007. Starts would be at their third-highest level over the same period, so the anticipated declines are not as bad as they appear at first glance.

Finally, on Friday, February's existing home sales report will be released, with sales expected to show solid 1.6 percent growth. This result would bring the pace of existing home sales to its highest monthly level since December 2017.

What to Look Forward To (continued)

Housing was one of the bright spots in the economy last year. Existing home sales are a prime example of why the sector was so impressive, as sales rebounded swiftly after hitting a three-year low in January 2019.

Looking forward, as was the case with retail sales, we can reasonably expect to see future headwinds from the current health crisis, as prospective buyers stay out of the market over the short term.

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. 03/20.

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