Weekly Market Update

General Market News

- The world is battling COVID-19, and we don't yet know the negative effects it will have on society and the economy. We should expect to see high levels of volatility until we as a nation have a better grasp on the times. Two weeks ago, the 10-year Treasury yield was at a historical low of 0.31 percent. It spiked to 1.27 percent last week but opened at 0.80 percent Monday morning. To try to offset some of the damage, the Federal Reserve cut rates, and Congress is discussing an unprecedented stimulus package to influence the markets going forward.
- U.S. equities led the global sell-off last week, as cases of COVID-19 accelerated within the U.S. The tech-oriented Nasdaq Composite fared better than the S&P 500, which saw its worst weekly loss since October 2008. Numerous states issued stay-in-place orders, banning all public gatherings and allowing only essential employees to leave their homes for work.
- Energy continued its recent slide amid the Saudi-Russia oil standoff, and West Texas Crude oil lost nearly 29 percent on the week. Other sectors bludgeoned by the conflict included REITs, industrials, and financials. The consumer staples, communication services, and consumer discretionary sectors fared better, due to the effects of COVID-19 and the subsequent social distancing practices and nationwide shutdowns. Consumer staples have benefited from the rush to buy essentials, with names such as Clorox, CostCo, and Kroger as beneficiaries. The communication services sector has also benefited, with companies such as Netflix and Facebook getting plenty of attention while the public practices social distancing.
- The National Association of Home Builders Housing Market Index for March was released on Tuesday. Home builder confidence declined from 74 in February to 72 in March, against economist expectations for a smaller decline to 73. Despite this decline, home builder confidence grew throughout 2019 after hitting a low of 56 in December 2018. Home builder confidence has been supported by low mortgage rates, which have, in turn, driven additional prospective buyers into the market. Given widespread social distancing efforts and the recent jump in mortgage rates, further declines in home builder confidence are expected, which would likely pressure new home construction.
- Speaking of which, on Wednesday, February's building permits and housing starts reports were released.

General Market News (continued)

Housing starts declined by 1.5 percent during the month while permits fell by 5.5 percent. Economists had forecasted declines of 4.3 percent for starts and 3.2 percent for permits. These data points can be very volatile on a month-to-month basis. Both starts and permits rose considerably throughout 2019, as increased home builder confidence and a lack of supply in key regions set the stage for a building boom. Despite the declines in February, both measures of new home construction came in near post-recession highs, indicating that home builders continued to build in February.

- Finally, on Friday, February's existing home sales report was released. Sales increased by 6.5 percent for the month against forecasts for 0.9 percent growth. This brought the pace of existing home sales to the highest level since 2007. Housing was a major bright spot in the economy last year, supported by high consumer confidence levels and low mortgage rates, and housing growth continued into the new year. Future expectations for existing home sales growth should be tempered, given the escalating social distancing and self-quarantine measures that are sweeping the nation.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–14.95	–21.87	–28.33	–17.64
Nasdaq Composite	–12.62	–19.63	–23.14	–11.30
DJIA	–17.29	–24.43	–32.41	–24.32
MSCI EAFE	–5.78	–22.82	–31.26	–24.49
MSCI Emerging Markets	–9.81	–20.01	–27.76	–22.95
Russell 2000	–16.14	–31.24	–39.04	–34.14

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–2.29	0.01	6.45
U.S. Treasury	0.29	6.34	12.24
U.S. Mortgages	–0.14	0.88	5.47
Municipal Bond	–6.57	–7.53	–2.74

Source: Morningstar Direct

What to Look Forward To

We'll start the week with Tuesday's release of the preliminary Markit U.S. Manufacturing and Services Purchasing Managers' Index reports for March. These two measures of nationwide business confidence will reflect surveys submitted last week, giving us a relatively up-to-date view on business confidence in the face of the escalating crisis. Both measures are set to decline from February's levels. Manufacturing confidence is expected to drop from 50.7 to 42.5, while service sector confidence is set to drop from 49.4 to 41. These are diffusion indices, where values above 50 indicate expansion and values below 50 indicate contraction. Accordingly, future reports will be well worth monitoring, as they should give us more insight into how businesses respond to the spread of COVID-19.

Also set for release on Tuesday, February's new home sales report is expected to show sales declining by 1.8 percent during the month. Compared with existing home sales, the new home segment is smaller and subject to a lot of monthly volatility. We should also note that new home sales increased dramatically throughout 2019, and January's result marked the fastest pace of sales since 2007. So, even if the estimates for February are accurate, this report would mark another example of the strength of the housing market.

On Wednesday, we'll get the preliminary estimate of February's durable goods orders report. Orders are expected to fall by 1 percent during the month. Core orders, which strip out the impact of volatile transportation orders, should decline by 0.4 percent. Core durable goods orders are often used as a proxy for business investment, so a drop in February would be a concern. Going forward, this sector should be monitored, as we can anticipate headwinds from the COVID-19 crisis.

Friday will see the release of February's personal income and personal spending reports. Both are expected to show steady growth, with income and spending set to increase by 0.4 percent and 0.3 percent, respectively. These numbers would represent solid results for the month, indicating that consumers were both willing and able to spend at the beginning of the year. Once again, we can reasonably expect COVID-19 to be a headwind for future results. Given the importance of consumer spending to the overall economy, it will be important to monitor these reports.

Finally, we'll finish the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey for March. Sentiment is expected to decline from 95.5 midmonth to 93.3 at month-end. This result would mark a notable decline from the level of 101 the index hit in February, but it would leave the index above the

What to Look Forward To (continued)

three-year low of 89.8 recorded in August 2019. Improving consumer confidence typically supports faster consumer spending growth, so this anticipated decline is a concern. It's not surprising, however, given recent economic developments. Market volatility, rising layoffs, and fears surrounding the spread of COVID-19 are all likely to weigh on consumers' minds over the upcoming months, depressing confidence and spending levels.

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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