MARCH 30, 2020

Weekly Market Update

General Market News

- The 10-year Treasury yield opened at 0.61 percent Monday morning. The 2-year yield opened at 0.26 percent, while the 30-year yield remained at elevated levels, opening at 1.25 percent. The anticipation of the U.S Treasury issuing a record amount of 30-year debt to pay for the $2 trillion stimulus package is keeping the long rate higher. The effects of the coronavirus on American lives and the economy are still somewhat unknown, but more volatility is expected in the coming weeks.

- Last week, we saw a notable bounce in those indices that have been among the most beaten down during the sell-off. The Dow Jones Industrial Average led the way, followed by the Russell 2000 and MSCI EAFE. As of the end of the week, these indices were down 32.41 percent, 39.04 percent, and 31.26 percent for the year, respectively.

- On a sector basis, utilities, industrials, and REITs were among the top performers for the week, due to consumers flocking to bond proxies as Treasury yields have come down. The worst-performing sectors were communication services, consumer staples, and health care. The latter two have garnered a lot of attention from investors since the start of the downturn. Individual names such as Walmart, Clorox, and Costco sold off slightly as elevated demand began to subside. WTI crude oil also fell for the fifth straight week.

- The $2 trillion stimulus package signed into law last Friday included approximately $367 billion in small business loans and another $500 billion in loan and loan guarantee programs for affected industries, cities, and states. The result was a rebound for some of the hardest-hit businesses since the start of the coronavirus pandemic, including Delta Airlines, American Airlines, and United Airlines, which all recovered more than 34 percent on the week. Boeing, whose stock had fallen from a 52-week high of $398.66 to a low of $89 two weeks ago, has now recovered more than 70 percent.

- On Tuesday, February's new home sales report was released. New home sales fell by 4.4 percent during the month; however, this is solely due to January's record result being revised from 764,000 to 800,000. February's pace of new home sales, at 765,000 during the month, would have represented the best reading for the index since 2007 if January hadn't been revised up. While this can be a volatile figure on a monthly basis, we saw a notable uptick in new home sales throughout 2019, and the strong results in January and February show that the housing market continued to excel to start the year.

- Wednesday saw the release of the preliminary estimate of February's durable goods orders report. Orders increased by 1.2 percent during the month, against expectations for a 0.9 percent decline. This better-than-expected result was due to a large increase in volatile transportation orders. Core orders, which strip out the impact of transportation orders, declined by 0.6 percent during the month, which was worse than the expected 0.4 percent decline. Core durable goods orders are often used as a proxy for business investment, so this decline is concerning. It indicates businesses

General Market News (continued)

were pulling back on spending in February, likely due to uncertainty regarding the spread of the coronavirus.

- On Thursday, the third and final estimate of fourth-quarter gross domestic product growth was released. The economy grew at an annualized rate of 2.1 percent during the quarter, which was in line with the previous estimate. Personal consumption growth was revised up slightly, from 1.7 percent in the second reading to 1.8 percent in the final report. This was an unsurprising report that confirmed the slow but steady economic growth we saw in 2019.

- On Friday, February's personal income and personal spending reports were released. The reports showed continued steady growth in February, with income rising by 0.6 percent and spending rising by 0.2 percent. This was better than estimates for 0.4 percent income growth and in line with estimates for 0.2 percent spending growth. These solid results showed that consumers were on solid footing to start the year; however, these figures will face significant headwinds in upcoming months.

- Finally, on Friday, the second and final reading of the University of Michigan consumer sentiment survey for March was released. Sentiment fell dramatically from an upwardly revised 95.9 mid-month to 89.1 at month-end. This was worse than economist estimates for a smaller decline to 90. This marks the largest monthly drop since October 2008, as consumers clearly felt the effects from the enhanced efforts to combat the spread of the coronavirus enacted in March. High levels of consumer confidence traditionally support faster spending levels, so this sharp decline is a bad sign for future consumer spending reports.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	10.28	–13.84	–20.96	–7.93
Nasdaq Composite	9.06	–12.35	–16.18	–1.14
DJIA	12.84	–14.72	–23.72	–13.79
MSCI EAFE	11.22	–14.16	–23.55	–14.71
MSCI Emerging Markets	4.95	–16.05	–24.19	–17.31
Russell 2000	11.68	–23.20	–31.92	–25.19

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	2.66	2.67	8.33
U.S. Treasury	1.70	8.14	13.02
U.S. Mortgages	1.92	2.82	6.97
Municipal Bond	7.86	–0.27	4.25

Source: Morningstar Direct

What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for March is set to be released. Confidence is expected to fall from 130.7 in February to 114 in March, demonstrating that measures to halt the spread of the coronavirus are weighing heavily on consumers. The anticipated result would bring the index down to its lowest level in more than three years. As we saw with the University of Michigan survey last week, there is potential ahead for even steeper declines in consumer confidence given the rapidly escalating economic situation.

Tuesday will also see the release of the February international trade report. The trade deficit is expected to narrow from $45.3 billion in January to $39.5 billion in February. If estimates hold, this result would leave the trade deficit at its smallest gap since September 2016. A previously released trade report showed a modest increase in exports and a large decline in imports during February, which is expected to drive the overall narrowing of the trade deficit. Looking forward, both imports and exports are likely to drop sharply, given falling global demand in the face of the coronavirus pandemic.

Wednesday will see the release of the Institute for Supply Management (ISM) Manufacturing index, which is set to decline sharply from 50.1 in February to 46 in March. This is a diffusion index, where values above 50 indicate expansion and values below 50 indicate contraction, so this anticipated decline is worth monitoring. Manufacturer confidence fell steadily throughout 2019, as the trade war with China caused uncertainty that damaged manufacturer confidence. In January, however, this index was able to recover into expansionary territory to start off the year, so this swift decline below 50 is especially disappointing.

On Thursday, the weekly U.S. initial jobless claims report for the week ending March 28 will be released. Economists expect that 2,500,000 more unemployment claims will be filed during the week, following the unexpectedly high number of 3,283,000 claims made during the previous week. These reports would easily represent the largest two-week employment swing in U.S. history, demonstrating the unprecedented economic disruption in the second half of the month. The initial jobless claims report should be closely followed for the immediate future. It gives a relatively up-to-date look at one of the primary economic costs associated with widespread measures to combat the public health crisis.

On Friday, March's employment report will be released. Economists are forecasting a decline of 100,000 jobs in March. If the estimates hold, March would be the first month with net job losses since September 2010. Also, it's likely that this estimate undercounts the true employment situation during the month. As the survey was conducted during the second week of March, it does not capture the massive spike in unemployment claims in the third week of the month, as well as the anticipated jump in the fourth week. The underlying data is also expected to show weakness, with the unemployment rate set to increase from 3.5 percent to 3.8 percent. The job market showed some weakness to start off 2019, but it recovered in the fourth quarter and during the first two months of 2020. Accordingly, this anticipated decline is disappointing but not surprising.

Finally, we'll finish the week with Friday's release of the ISM Nonmanufacturing index for March. This measure of service sector confidence is expected to fall from 57.3 in February to 48 in March. Business owners have

What to Look Forward To (continued)

been contending with the headwinds created by social distancing and shelter-in-place orders that have swept the country. The March result would be in line with the large drop in the Markit U.S. Manufacturing and Services Purchasing Managers' Index reports released last week. As was the case with the ISM Manufacturing index, this is a diffusion index where values below 50 indicate contraction, so the anticipated decline is worrisome. If the estimate holds, the index would sit at its lowest level since July 2009. Given the massive disruptions to businesses we experienced during the month, this result makes sense.

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