

Weekly Market Update



General Market News

- The 10-year Treasury yield spiked to 0.74 percent last week before dropping to 0.60 percent on Friday and opening at 0.68 percent on Monday. The 2-year yield opened at 0.15 percent, while the 30-year yield opened at 1.40 percent. April's Consumer Price Index (CPI), Producer Price Index (PPI), and retail sales will be released this week, giving us a better understanding of the pandemic's effects on the economy and likely spurring some additional volatility.
- The S&P 500, Dow Jones Industrial Average, and Nasdaq Composite were all up on the week, with the Nasdaq Composite leading the way with a gain of more than 6 percent. Small-cap stocks also continued their recent rally, as the Russell 2000 moved up another 5.52 percent. The rally came despite a sharp increase in the unemployment rate and concerns over a potential second wave of the coronavirus. It was supported by the Federal Reserve's (Fed's) continued economic assistance, as well as positive earnings reports, which revealed a pickup in business activity from lows at the end of March.
- The top-performing sector on the week was energy, as West Texas Intermediate crude oil rallied by 25 percent. Technology and consumer discretionary also had a strong week. The worst performers were the bond proxies in utilities, consumer staples, and financials.
- On Tuesday, the Institute for Supply Management Nonmanufacturing index was released. This measure of service sector confidence declined from 52.5 in March to 41.8 in April, against expectations for a larger fall to 38. Despite the better-than-expected result, this still brought the index to its lowest level in more than a decade, as service sector confidence now sits near the all-time low of 37.8, set in November 2008. This is a diffusion index, where values below 50 indicate contraction, so this decline was concerning but not necessarily surprising, given the business shutdowns during the month.
- Friday brought the release of the April employment report. As expected, this report showed the devastating effects widespread shelter-in-place orders had on the jobs market, with 20.5 million jobs lost during the month. This result was better than economist estimates for 22 million, but previously released unemployment claims data indicates that this report may be undercounting the full extent of the jobs lost during the month. The unemployment rate increased to a post-war high of 14.7 percent, against expectations for a further increase to 16 percent. Despite the better-than-expected results, this represents the worst single month for American job losses on record and brought the unemployment rate well above the 10 percent high we saw during the 2008 financial crisis.

Market Index Performance Data

EQUITIES

| Index | Week-to-Date % | Month-to-Date % | Year-to-Date % | 12-Month % |
|-----------------------|----------------|-----------------|----------------|------------|
| S&P 500 | 3.57 | 0.67 | -8.68 | 4.13 |
| Nasdaq Composite | 6.05 | 2.66 | 2.02 | 16.57 |
| DJIA | 2.67 | 0.05 | -14.03 | -3.46 |
| MSCI EAFE | 0.87 | -0.45 | -18.21 | -9.04 |
| MSCI Emerging Markets | -0.52 | -1.40 | -17.77 | -9.00 |
| Russell 2000 | 5.52 | 1.48 | -19.92 | -14.04 |

Source: Bloomberg

FIXED INCOME

| Index | Month-to-Date % | Year-to-Date % | 12-Month % |
|-------------------|-----------------|----------------|------------|
| U.S. Broad Market | -0.33 | 4.52 | 10.12 |
| U.S. Treasury | -0.30 | 8.48 | 13.46 |
| U.S. Mortgages | 0.11 | 3.59 | 7.63 |
| Municipal Bond | 0.78 | -0.79 | 2.68 |

Source: Morningstar Direct



What to Look Forward To

On Tuesday, April's CPI will be released. Consumer prices are expected to fall by 0.7 percent during the month, following a 0.4 percent decline in March. On a year-over-year basis, consumer prices are expected to rise by a modest 0.4 percent, down notably from the 1.5 percent year-over-year growth rate the month before. Lowered gas prices are one of the major drivers of expectations for lowered inflation. Core consumer inflation, which strips out the impact of volatile gas and food prices, is expected to fall by only 0.2 percent during the month. This result would translate to year-over-year core consumer inflation of 1.7 percent, the lowest level seen since September 2017. In the short term, the negative shock to consumer demand created by efforts to battle the spread of the coronavirus is expected to continue to hold back inflationary pressure for consumers.

On Wednesday, April's PPI will be released. Economists expect to see a 0.4 percent decline in headline producer inflation for the month, which would cause producer prices to decline by 0.2 percent on a year-over-year basis. As was the case with consumer inflation, core producer prices are expected to show a more modest decline of 0.1 percent in April, leading to 0.8 percent year-over-year inflation for this segment. If the estimates hold, year-over-year core producer inflation will hit its lowest level in more than four years. Despite the raft of supportive policy measures enacted by the Fed over the past two months, the collapse in global demand is expected to serve as a headwind to inflation in the short term.

On Thursday, the weekly U.S. initial jobless claims report for the week ending May 9 is set to be released. Economists anticipate an

What to Look Forward To (continued)

additional 2.5 million initial unemployment claims to be filed. Although this result would represent the sixth straight week of declining initial claims, it would bring the eight-week total up to roughly 36 million recently unemployed Americans. If estimates hold, this report would show that mass layoffs have continued into May. We will continue to monitor this weekly gauge of the health of the jobs market until we see levels approach historical norms.

Friday will see the release of April's retail sales report. Sales are expected to fall by 11 percent during the month, following an 8.7 percent decline in March. To put this into perspective, the worst two back-to-back months for retail sales during the great financial crisis saw sales fall by a combined 6.7 percent. Part of this anticipated decline can be attributed to lowered spending on gas. But even core retail sales, which exclude volatile gas and auto purchases, are slated to decline by 5.5 percent in April. This result would mark the worst month on record for core retail sales, passing last month's record 2.8 percent decline. Given the importance of consumer spending to the overall economy, if estimates prove to be accurate, April's retail sales would be a negative signal for second-quarter gross domestic product growth.

Friday will also see the release of the industrial production report for April. Economists expect production to fall by 11.4 percent during the month, following a disappointing 5.4 percent decline in March. The March report represented

the worst monthly drop in output since 1946, so the prospect of a further decline is concerning. Much of the April forecast can be traced to low expectations for manufacturing output. This segment is set to fall by 14 percent during the month, after declining by 6.3 percent in March. Given the massive drop in global demand created by the ongoing pandemic, industrial production and manufacturing output are expected to remain challenged until the global economy shows signs of a recovery.

Finally, we'll finish the week with Friday's release of the first estimate of the University of Michigan consumer sentiment survey for May. This widely followed measure of consumer confidence is expected to decline from 71.8 in April to 67.5 in May. This result would not be surprising, given the fact that most Americans were still under shelter-in-place orders at the beginning of the month. Consumer confidence is typically supported by positive market performance and a strong jobs market. While markets have partially rebounded from recent lows, April's employment report showcased the damage that efforts to combat the spread of the coronavirus have had on the jobs market. The extremely weak employment situation will likely serve as a headwind against further improvements to consumer confidence, unless large-scale progress is made in returning Americans to work. Consumer confidence will be a widely followed metric over the coming months. Hopes of a swift economic recovery largely rely on a rebound in consumer confidence and spending.

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. 05/20.

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