# Weekly Market Update

## General Market News

- The 10-year Treasury yield reached 0.78 percent late last week, rebounding from a low of 0.73 percent on Monday morning. The 30-year jumped from 1.32 percent to 1.57 percent, opening Monday at 1.52 percent. On the short end of the curve, rates started the week higher but moved to their lowest levels in three weeks, with the 2-year opening Monday morning at 0.13 percent. Primary factors affecting rates are supply, Federal Reserve (Fed) involvement, and the coronavirus pandemic.
- Last week featured another rally driven by communication services and technology, as the Nasdaq Composite, S&P 500, and Dow Jones Industrial Average each increased by more than 2.5 percent. The largest drivers within communication services included Facebook and Netflix, which increased 10 percent and 6.4 percent, respectively. Other than utilities, every sector was up as vaccine optimism helped fuel a rally for beaten-down consumer discretionary names. Financials increased after interest rates picked up.
- Fed Chairman Jerome Powell announced a policy framework shift that will allow inflation to average 2 percent over time and will support a "lower-for-longer" interest rate policy. This move was supportive of energy and materials companies, which typically benefit from inflationary environments.
- On Tuesday, the Conference Board Consumer Confidence Index for August was released. Confidence fell unexpectedly from 91.7 in July to 84.8 in August, against forecasts for a modest rise to 93. This marks the second month in a row of declines for the index after it rebounded to 98.3 in June as the country began reopening. This disappointing result, driven by lackluster consumer views on economic conditions during the month, brought the index to its lowest level in six years. Improving confidence typically supports faster consumer spending growth, so this concerning result bodes poorly for consumer spending growth in August.
- On a brighter note, Tuesday also saw the release of July's new home sales report, which surprised to the upside. The pace of new home sales rose from an upwardly revised 791,000 in June to 901,000 in July, against economist estimates for 790,000. This significantly better-than-expected result brought the pace of new home sales to its highest level since December 2006. Add in the strong existing home sales results we saw two weeks ago, and the housing market has seen an impressive rebound over the past few months. Housing has been boosted by record-low mortgage rates and shifting consumer preferences in the face of the pandemic.
- On Wednesday, the preliminary estimate of July's durable goods orders report was released. Durable goods orders impressed, rising by 11.2 percent during the month against forecasts for a 4.8 percent increase. Much of this better-than-expected result was due to a rebound in transportation orders, as core durable goods orders (which strip out the impact of transportation orders) grew by a more modest 2.4 percent. Core durable goods orders are often used as a proxy for business investment, so this positive result indicates businesses continued to spend during the month despite rising case counts.

### General Market News (continued)

- Thursday saw the release of the second estimate of second-quarter gross domestic product (GDP) growth. The economy contracted at an annualized rate of 31.7 percent during the quarter, slightly better than the advanced estimate of a 32.5 percent annualized contraction. Despite the improvement, this represents the worst quarter for economic growth in modern history, far surpassing the 8.4 annualized decline we saw in the fourth quarter of 2008. The steep drop in economic output was driven by collapsing personal consumption during the quarter, which was down a record 34.1 percent on an annualized basis. These are certainly concerning figures, but it's important to note this is old data. Economists anticipate a double-digit rebound in GDP growth in the third quarter, which should partially offset the damage created by anticoronavirus measures in the second quarter.
- On Friday, July's personal income and personal spending reports were released. Both were better than expected, with spending up 1.9 percent against calls for a 1.6 percent increase and income up by 0.4 percent against calls for a 0.2 percent decline. This result helped calm concerns that rising case counts and falling confidence could lead to a more significant slowdown in spending growth after two strong months in May and June. The income growth we saw during the month was also encouraging because it showed improvements from rising wage income were more than enough to offset a fall in government stimulus.
- Finally, we finished the week with the second and final reading of the University of Michigan consumer sentiment survey for August. Consumer sentiment improved throughout the month, rising from 72.8 mid-month to 74.1 at month-end, against expectations to remain flat. This represents a modest increase from July's 72.5 reading and is notably better than initial economist estimates for a decline to 72. The index still sits below the post-reopening high of 78.1 it reached in June and is a far cry from the prepandemic high of 101 it set in February. As was the case with the Conference Board Consumer Confidence Index, this report highlighted the very real work remaining to return confidence to prepandemic levels.





## Market Index Performance Data

### EQUITIES

| Index | Week-to-Date % | Month-to-Date % | Year-to-Date % | 12-Month % |
|---|---|---|---|---|
| S&P 500 | 3.29 | 7.41 | 9.97 | 22.29 |
| Nasdaq Composite | 3.40 | 8.95 | 31.17 | 48.13 |
| DJIA | 2.64 | 8.71 | 2.03 | 11.29 |
| MSCI EAFE | 1.69 | 5.17 | –4.58 | 6.82 |
| MSCI Emerging Markets | 2.76 | 4.08 | 2.28 | 18.29 |
| Russell 2000 | 1.69 | 6.73 | –4.55 | 7.00 |

*Source: Bloomberg, as of August 28, 2020*

### FIXED INCOME

| Index | Month-to-Date % | Year-to-Date % | 12-Month % |
|---|---|---|---|
| U.S. Broad Market | –0.51 | 6.60 | 6.32 |
| U.S. Treasury | –0.65 | 8.44 | 6.75 |
| U.S. Mortgages | 0.06 | 3.74 | 4.70 |
| Municipal Bond | –0.33 | 3.30 | 3.24 |

*Source: Morningstar Direct, as of August 28, 2020*

## What to Look Forward To

- On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for August will be released. This measure of manufacturer confidence is set to rise modestly from 54.2 in July to 54.5 in August. This result would bring the index to its highest level since March 2019, highlighting an impressive rebound in manufacturer sentiment that began once reopening efforts kicked off in May. This is a diffusion index, where values above 50 indicate expansion, so its continued improvement in August would be a good sign for manufacturing output in the third quarter. Still, despite the anticipated increase in manufacturing confidence, output remains roughly 8 percent below prepandemic levels, demonstrating work needs to be done here.
- On Thursday, the initial jobless claims report for the week ending August 29 is set to be released. Economists expect to see 978,000 initial claims during the week, which would be an improvement from the 1.006 million initial claims from the prior week but above the low of 971,000 recorded for the week ending August 7. Initial claims have bounced around 1 million per week throughout August, highlighting the very real headwinds the job market faces despite the boost from reopening efforts earlier in the summer. Continuing claims are also expected to show modest improvement, but they will remain elevated on a historical basis. We'll continue to monitor these weekly reports until initial and continuing claims return to more normal levels.





### Market Index Performance Data (continued)

- Thursday will also see the release of July's international trade report. The trade deficit is expected to widen, from $50.7 billion in June to $52.7 billion in July, following a similar expansion of the trade deficit for goods previously reported for July. Imports and exports of goods both increased by 11.8 percent in July, after trade volumes hit multiyear lows at the height of the global pandemic. July's rebound in goods-related trade was primarily driven by increasing motor vehicle trade, with both exports and imports of cars increasing by more than 40 percent, which brought this segment close to prepandemic levels. Although the trade of goods has shown a solid recovery since reopening efforts began, service-related trade has been slower to bounce back, primarily due to lowered international travel during the pandemic.
- The third major data release on Thursday will be the release of the ISM Services index for August. Economists expect to see service sector confidence decline from 58.1 in July to 57.4 in August. As was the case with manufacturing confidence, service sector confidence has shown a strong rebound since reopening efforts began, so this anticipated decline is nothing to worry about. In fact, if estimates hold, the index would sit at its second-highest level this year, behind July's stronger-than-anticipated result. This is another diffusion index, where values above 50 indicate expansion, so the index would still point toward continued growth if estimates prove accurate. The strong rebound in business confidence we've seen since May has been very encouraging, indicating business owners have largely viewed reopening efforts as a success. Nonetheless, we'll have to wait and see whether confidence can remain high now that the tailwind from reopening efforts is starting to fade.
- Finally, we'll finish the week with Friday's release of the August employment report. Economists expect to see just more than 1.5 million jobs added in August, following about 1.75 million jobs added in July. The unemployment rate is also set to show improvement, with forecasts calling for a decline from 10.2 percent in July to 9.8 percent in August. Although adding roughly 1.5 million jobs in August would certainly be a positive development, it's important to view this release in context; we lost more than 22 million jobs between March and April alone. Even if we do see an additional 1.5 million jobs in August, it would leave us with fewer than 11 million hires between May and August. That figure represents a substantial gap compared with prepandemic employment levels. Ultimately, a full economic recovery will require significant improvement on the employment front, so these monthly releases will continue to be closely monitored.



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