NOVEMBER 2, 2020

Weekly Market Update

General Market News

- Last week, the pickup in Treasury yields continued, despite a drop in equities. The 10-year Treasury yield opened at 0.84 percent and hit an intra-week high just shy of 0.87 percent on Friday before closing at 0.86 percent. The 10-year gained almost 2 basis points on the week. The 30-year opened at 1.64 percent and stayed mostly flat, and the 2-year opened at 0.16 percent. The pickup in yields is surprising, as investors moved out of short- and intermediate-term Treasuries in the second half of the week. This move may be supported by additional expected near-term stimulus.
- Equities sold off last week as new coronavirus restrictions were implemented in France, Germany, Spain, and the U.K. U.S. small-cap stocks, which benefited from a recent reopening trade, were among the hardest hit. The technology sector was among the biggest detractor—down 6.42 percent for the week, followed by health care and consumer discretionary. Among the largest detractors were Microsoft, Apple, Amazon, Facebook, Mastercard, Visa, and NVIDIA. Despite beating earnings expectations, Microsoft fell on softer-than-expected future revenue and earnings guidance. Apple also beat on both revenue and earnings, but low iPhone sales led investors to wonder if consumers are holding out for the newly released 5G models or if this is a trend.
- The top-performing sectors were real estate, energy, and materials. Additional stimulus from the federal government may lead to higher inflation expectations, from which these sectors are best positioned to benefit.
- On Monday, September's new home sales report was released. The pace of new home sales declined by 3.5 percent during the month, from an annualized rate of 994,000 in August to 959,000 in September, against estimates for an increase to 1.03 million. Despite the modest decline, the pace of new home sales is up more than 33 percent year-over-year and remains well above pre-pandemic levels. The slowdown in sales is likely due in large part to low inventory, as the level of available homes for sale at the current sales pace remains near record lows. New home sales are a smaller and often more volatile portion of the overall market compared with existing home sales, so the modest pullback in September is nothing to worry about, especially given the strong rebound in overall sales since reopening efforts took hold.
- Tuesday saw the release of the September durable goods orders report. Durable goods orders rose by more than expected during the month—to 1.9 percent against calls for a more modest 0.5 percent increase. Core durable goods orders, which strip out the impact of volatile transportation orders, also beat expectations, rising by 0.8 percent against calls for 0.4 percent growth. Core durable goods orders are often used as a proxy for business investment, so this is a positive sign for business investment during the quarter. With the better-than-expected result in September, the level of durable

General Market News (continued)

goods orders is now approaching pre-pandemic levels.

- Tuesday also saw the release of the Conference Board Consumer Confidence Index for October. This widely followed measure of consumer confidence fell slightly during the month, from 101.3 in September to 100.9 in October. Economists had previously forecast a modest increase to 102. Confidence improved notably in September, and this slight moderation is understandable, given the uncertainty created by rising case counts and the upcoming election. Typically, improving consumer confidence supports faster spending growth, so this will continue to be a widely followed monthly report. The index still sits well below this year's pre-pandemic high of 132.6 set in February, highlighting the work necessary to get back to pre-pandemic levels.
- On Thursday, the first estimate for third-quarter gross domestic product (GDP) growth was released. The report showed the economy growing at a 33.1 percent annualized rate during the quarter, which was better than economist estimates for 32 percent. This marks the best quarter for growth on record, as activity rebounded swiftly following the 31.4 percent annualized decline we saw in the second quarter. As expected, increased personal consumption was the major driver of this strong rebound in economic activity, with consumption growing at a 40.7 percent annualized rate against forecasts for 38.9 percent. Rising business investment also contributed to the growth in the quarter, while trade served as a headwind. Despite the better-than-expected results, the overall size of the economy remains roughly 3.5 percent down from the recent peak, highlighting the damage caused in the second quarter. Economists expect to see the economy remain smaller than its pre-crisis size for a number of quarters.
- Friday saw the release of September's personal income and personal spending reports. Both came in above expectations, with spending up 1.4 percent during the month against forecasts for 1 percent growth, while income rose by 0.9 percent against calls for 0.4 percent. These results were quite welcome and show the continued resilience of the American consumer in the third quarter, as we saw with the personal consumption growth in the GDP report. Incomes were boosted by additional supplemental jobless payments authorized in August, but the growth was not enough to offset a 2.5 percent decline in incomes in August. Income growth has been very volatile throughout the pandemic, with shifting government stimulus and support leading to large swings in monthly income levels. Spending, on the other hand, has seen consistent growth since reopening efforts began, increasing in each of the past five months. Overall, this was a strong report that highlighted the continued resilience in consumer spending at the end of the third quarter.
- We finished the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey. The preliminary estimate released earlier in the month showed the index rising by more than expected, from 80.4 in September to 81.2 in October. The final report showed additional improvement throughout the month, with the index finishing October at 81.8 against forecasts to remain unchanged from the preliminary estimate. This result was likely driven in part by rising expectations for a Biden presidency, as the gauge of Democrat expectations surged to levels last seen before the pandemic, while Republican expectations remain muted. Despite these results, the index still sits well below the pre-pandemic high of 101 it hit in February.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–5.62	–2.66	2.77	9.71
Nasdaq Composite	–5.50	–2.26	22.50	32.84
DJIA	–6.47	–4.52	–5.38	0.34
MSCI EAFE	–5.51	–3.99	–10.80	–6.86
MSCI Emerging Markets	–2.89	2.06	0.87	8.25
Russell 2000	–6.21	2.09	–6.77	–0.14

Source: Bloomberg, as of October 30, 2020

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.04	6.32	6.19
U.S. Treasury	0.04	7.88	6.95
U.S. Mortgages	0.06	3.58	3.95
Municipal Bond	0.08	3.02	3.59

Source: Morningstar Direct, as of October 30, 2020

What to Look Forward To

We started the week with Monday's release of the Institute for Supply Management (ISM) Manufacturing index for October. This gauge of manufacturer confidence rose by more than expected, going from 55.4 in September to 59.3 in October, against calls for an increase to 56. This result calmed fears that the index's decline in September might have been the start of a negative trend. Manufacturer confidence has increased notably since hitting a lockdown-imposed low of 41.5 in April, and the index now sits well above pre-pandemic levels. This is a diffusion index, where values above 50 indicate expansion, and this result showed manufacturing expanding at the fastest pace since 2018. Ultimately, this strong report demonstrated manufacturing's continued recovery in October despite rising case counts.

Wednesday will see the release of the international trade report for September. Economists expect to see the trade deficit narrow from a 14-year low of $67.1 billion in August to $63.9 billion in September. Nonetheless, if estimates hold, this report would represent the second-largest monthly trade deficit since 2006. The previously released advance goods trade report showed the trade deficit for goods narrowing during the month, with exports of goods rising by 2.7 percent and imports declining by

What to Look Forward To (continued)

0.2 percent. On the whole, trade volumes remain low, but imports have rebounded more quickly than exports. Looking forward, this indicates there may be room for additional export growth. If we do see such continued growth, it may be enough to serve as a tailwind for the fourth-quarter economy.

Also on Wednesday, the ISM Services index for October is set to be released. This measure of service sector confidence is expected to show a modest decline from 57.8 in September to 57.5 in October. This is another diffusion index, where values above 50 indicate expansion, so this drop would leave the index in expansionary territory. In addition, the anticipated result would put the index above the pre-pandemic high of 57.3 it hit in February and at a level that has historically signaled 4 percent annualized GDP growth. Strong business confidence often supports additional business investment, and we saw the positive impact that increased business investment can have in the third-quarter GDP report. If estimates prove to be accurate, October would represent another strong month for service sector confidence, which would be all the more impressive given the rising case counts.

On Thursday, the initial jobless claims report for the week ending October 31 is set to be released. Economists expect to see the number of initial filers decline from 751,000 the week before to 738,000 for the final week of October. This result would represent the lowest level of weekly initial claims since the pandemic began, but it would be more than three times higher than 2019's weekly average. Continuing unemployment claims are also expected to decline, but it should be noted that some of the drop seen in October has likely been due to claimants exhausting their benefits rather than finding new employment. Ultimately, even with the anticipated improvement for the week, the high level of initial and continuing claims continues to indicate stress on the labor market months after lockdowns were lifted.

Thursday will also see the release of the Federal Open Market Committee (FOMC) rate decision from its November meeting. In March, the Federal Reserve cut rates to virtually zero as a response to the pandemic, and economists do not expect rates to be raised for the foreseeable future. Accordingly, the focus will be largely on the Fed's statement and Fed Chair Jerome Powell's press conference following the release. Market participants will be interested in seeing how the central bank reacts to rising case counts in October. Previously released Fed minutes showed a widespread concern among FOMC members that the pandemic presents a continued risk to the ongoing economic recovery. Given the rising medical risks since the Fed last met in September, continued supportive monetary policy is expected.

Finally, we'll finish the week with Friday's release of the October employment report. Economists expect to see 600,000 jobs added during the month, down from 661,000 in September. September's report was disappointing, coming in below expectations and marking the weakest month for job growth since the lockdowns ended. The unemployment rate is expected to have declined slightly during the past month,

What to Look Forward To (continued)

from 7.9 percent in September to 7.7 percent in October. While certain areas of the economy have been able to recover to or above pre-pandemic levels, employment growth is lagging in the recovery. We have recovered only about half of the 22 million jobs lost in March and April. The slowdown in the pace of hiring is concerning given the amount of people who are still unemployed. It highlights the very real work that still needs to be done in order to get the economy back to pre-pandemic 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. 11/20.

Authored by the Investment Research team at Commonwealth Financial Network.

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