Weekly Market Update

General Market News

- Last week saw a drop in yields as a result of uncertainty regarding the election and the pandemic. The 10-year Treasury yield opened at 0.86 percent and hit an intra-week low just shy of 0.75 percent on Wednesday before closing at 0.82 percent. The 10-year lost nearly 4 basis points (bps) on the week. The 30-year yield opened at 1.64 percent while the 2-year opened at 0.15 percent. The 30-year came down by 4 bps.

- Equities rallied as the election results led to a higher likelihood of future stimulus. As the number of coronavirus cases increased nationwide, the FAAMNG technology and discretionary names, including Facebook, Amazon, Apple, Microsoft, Netflix, and Google, outperformed. Additionally, we saw health care among the top-performing sectors supported by Thermo Fisher Scientific (TMO). The sectors that underperformed included energy, utilities, and real estate.

- Last week started with Monday's release of the Institute for Supply Management (ISM) Manufacturing index for October. This gauge of manufacturer confidence rose from 55.4 in September to 59.3 in October against calls for a more modest increase to 56. This better-than-expected 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 in October, despite rising case counts during the month.

- On Wednesday, October's ISM Services index was released. This measure of service sector confidence fell from 57.8 in September to 56.6 in October against calls for a more modest decline to 57.5. This is another diffusion index, where values above 50 indicate expansion, so this modest decline still leaves the index in expansionary territory. Service sector confidence sits near the pre-pandemic high of 57.3 that the index hit in February, but the larger-than-expected decline shows the threat that rising case counts present for service sector businesses. Given the drop in confidence during the month, November's service sector report will be widely monitored to see if rising case counts will turn into a more significant headwind for service sector recovery.

- Thursday saw the release of the Federal Open Market Committee rate decision from the November meeting. The Federal Reserve (Fed) cut rates to virtually zero in March as a response to the pandemic, and there were no changes to rates at this meeting, as expected. The press release following

General Market News (continued)

the meeting showed that Fed members are still very worried about the ongoing pandemic, citing "considerable risks" for the economy in the medium term. Fed Chair Jerome Powell expressed a continued commitment to the Fed's asset purchasing program at his post-meeting press conference. The Fed is currently purchasing $80 billion in Treasury bonds and $40 billion in mortgage-backed securities monthly. Overall, this meeting largely confirmed what we already knew: the Fed remains willing and able to continue to support the ongoing economic recovery for as long as needed.

- Finally, we finished the week with Friday's release of the October employment report. The report showed 638,000 jobs were added during the month, which was above estimates for 580,000 but down from an upwardly revised 672,000 additional jobs the month before. The unemployment rate also beat forecasts, falling from 7.9 percent in September to 6.9 percent in October, against calls for a more modest decline to 7.6 percent. These results were an encouraging development, as they showed that rising case counts and political uncertainty were not enough to throw off the ongoing economic recovery. With that said, the labor market is still facing significant stress. There is a long way to go to get back to pre-pandemic levels, as we have recovered only a little more than half of the 22 million jobs lost in March and April.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	7.36	7.36	10.33	15.89
Nasdaq Composite	9.05	9.05	33.59	42.35
DJIA	6.89	6.89	1.13	4.69
MSCI EAFE	8.11	8.11	–3.57	–0.66
MSCI Emerging Markets	6.62	6.62	7.55	12.01
Russell 2000	6.89	6.89	–0.35	4.60

Source: Bloomberg, as of November 6, 2020

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.49	6.83	7.79
U.S. Treasury	0.23	8.13	8.68
U.S. Mortgages	–0.01	3.57	4.29
Municipal Bond	0.63	3.67	4.75

Source: Morningstar Direct, as of November 6, 2020

What to Look Forward To

Thursday will see the release of October's Consumer Price Index report. This measure of consumer inflation is expected to show modest 0.2 percent growth during the month, in line with September's 0.2 percent increase. On a year-over-year basis, headline consumer inflation is set to come in at 1.3 percent, down from the 1.4 percent annual inflation rate we saw in September. Core consumer inflation, which strips out the impact of food and energy prices, is expected to show a 0.2 percent increase during the month and a 1.7 percent increase year-over-year. This year, inflation has remained largely constrained due to the deflationary pressure created by the pandemic and lower demand for services weighing down upward price pressure. While prices for goods have seen more upward pressure than prices for services, notably in used car prices, there are signs that the pace of price increases is starting to slow.

Thursday will also see the release of the weekly initial jobless claims report for the week ending November 7. Economists expect to see the number of initial unemployment claims decline from 751,000 in the final week of October to 725,000 in the first week of November. If estimates hold, this report would mark the lowest number of weekly initial claims since March. On a historical basis, however, initial claims would still be quite high. Continuing unemployment claims are also expected to decline, but they will remain elevated compared with pre-pandemic levels. Given the overall high levels of both initial and continuing claims, this weekly report will continue to be widely followed.

On Friday, the October Producer Price Index is set to be released. Producer prices are expected to rise by 0.2 percent during the month, down from a larger-than-anticipated 0.4 percent increase in September. On a year-over-year basis, producer inflation should show 0.4 percent growth in October, in line with September's 0.4 percent year-over-year inflation rate. Core producer prices, which strip out food and energy prices, are slated to rise by 0.3 percent during the month and 1.3 percent year-over-year. As previously mentioned, inflation has remained largely constrained this year due to the pandemic, making it highly unlikely that rising price pressure will trouble the Fed any time soon. Currently, the central bank is focused on getting Americans back to work and supporting the ongoing economic recovery.

We'll finish the week with Friday's release of the preliminary University of Michigan consumer sentiment survey for November. This first look at consumer confidence for the month is expected to show a modest improvement, from 81.8 in October to 82 to begin November. October saw the index rise by more than anticipated, and, if estimates hold, this report would mark the fourth straight month with

What to Look Forward To (continued)

improving sentiment. October's report showed a notable partisan split in the responses, with Democrat sentiment rising notably and independent and Republican sentiment falling slightly. Given the partisan nature of October's report, it will be interesting to see the impact the election has on sentiment for consumers across the political spectrum. Historically, improving consumer sentiment has supported spending growth, so any improvement for the index would be quite welcome, especially as we enter the important holiday shopping season.

Authored by Brad McMillan, CFA®, CAIA, MAI, managing principal, chief investment officer, and Sam Millette, senior investment research analyst, at Commonwealth Financial Network®.