DECEMBER 7, 2020

Weekly Market Update

General Market News

- Last week saw a steepening of the yield curve as optimism grew over vaccine news and the potential for new stimulus. The 10-year Treasury yield opened last week just below 0.85 percent and closed just shy of 0.97 percent. This morning, the 10-year opened at 0.94 percent, almost 9 basis points (bps) higher than last week's open. The 30-year opened this morning at 1.70 percent, an increase of 11 bps over last week. On the shorter end of the curve, the 2-year opened last week at 0.15 percent and dropped to 0.14 this morning.

- All three major U.S. indices were up again last week. Markets moved higher as we saw mostly positive news around vaccine distribution and a potential additional round of stimulus. On Thursday, the U.K. became the first country to provide approval for the Pfizer-BioNTech vaccine, leading Pfizer to finish the week up more than 8 percent. Another major driver for markets was a proposed bipartisan stimulus package of approximately $900 billion. We also saw a continued pickup in coronavirus cases, particularly in California, which has proposed several new restrictions. This combination of vaccine, stimulus, and coronavirus news led to mixed trading in energy, health care, and technology, which were among the week's top-performing sectors. Underperforming sectors included utilities, consumer discretionary, and materials.

- On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for November was released. This measure of manufacturer confidence fell from 59.3 in October to 57.5 in November, against forecasts for a more modest decline to 58. This is a diffusion index, where values above 50 indicate expansion, so manufacturing remains in expansionary territory. In addition, despite the larger-than-anticipated drop, manufacturer confidence sits at its second-highest level since December 2018, rebounding sharply since hitting a lockdown-induced low of 41.5 in April. This continued strength in November, despite rising case counts, is a sign of resilience for the industry.

- Thursday saw the release of the ISM Services index for November. Service sector confidence fell, but by less than expected—from 56.6 in October to 55.9 in November, against calls for a further decline to 55.8. This is another diffusion index, where values above 50 indicate growth, so this better-than-expected result kept the service sector in expansionary territory and well above the pandemic low of 41.8 the index hit in April. This marks two consecutive months with declining confidence, however, highlighting the risks the worsening pandemic presents to service sector businesses. For the time being, confidence remains healthy, but this will be an important area to

General Market News (continued)

monitor going forward, as the service sector accounts for the majority of overall economic activity.

- We finished the week with Friday's release of the November employment report. The report showed 245,000 jobs were added during the month, which was lower than forecasts for 460,000 additional jobs and down from the downwardly revised 610,000 jobs added in October. The unemployment rate fell from 6.9 percent in October to 6.7 percent in November, as expected, but some of this drop can be attributed to a surprise decline in the labor force participation rate during the month. This disappointing report highlighted the negative economic effects of rising case growth in November, as newly implemented restrictions at the state and local level likely served as a headwind to hiring. This is the fewest number of new jobs added in a month since lockdowns ended, which is concerning given that overall employment remains roughly 4 million jobs below pre-pandemic levels. Given the continuing case growth in December, it is quite possible we will see the pace of improvement stall even further to end the year. There is hope vaccines will help accelerate hiring once they are widely available in 2021.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.72	2.18	16.50	20.87
Nasdaq Composite	2.14	2.19	40.10	46.74
DJIA	1.16	2.05	8.28	11.74
MSCI EAFE	1.02	2.32	5.41	9.09
MSCI Emerging Markets	1.66	3.82	14.42	22.60
Russell 2000	2.04	4.01	14.84	18.83

Source: Bloomberg, as of Devember 4, 2020

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.42	6.84	6.83
U.S. Treasury	–0.77	7.38	6.90
U.S. Mortgages	–0.11	3.54	3.85
Municipal Bond	0.13	4.64	4.88

Source: Morningstar Direct, as of December 4, 2020

What to Look Forward To

On Thursday, the initial jobless claims report for the week ending December 5 will be released. Economists expect to see an additional 720,000 initial claims filed, which would be a modest increase from the 712,000 initial claims recorded the week before. If estimates prove accurate, this would mark the third-lowest level of weekly initial claims since the pandemic started. Nonetheless, on a historical basis, claims would still be high. The pace of improvement for initial claims has slowed notably over the past two months, highlighting the headwind to further labor market improvements created by rising COVID-19 case counts during this time.

Thursday will also see the release of the Consumer Price Index for November. Consumer prices are expected to grow by 0.1 percent during the month after remaining flat in October. On a year-over-year basis, consumer inflation is forecasted to grow by 1.1 percent, down from the 1.2 percent annual inflation rate gain in October. Core consumer inflation, which strips out the impact of volatile food and energy prices, is also expected to show 0.1 percent growth during the month. That result would bring the pace of year-over-year core consumer inflation to 1.5 percent in November, down from 1.6 percent in October. We saw a moderate pickup in inflationary pressure when lockdowns were lifted earlier in the year. Nonetheless, consumer inflation has remained largely constrained throughout the year, primarily because of deflationary pressures created by anti-coronavirus measures.

On Friday, the Producer Price Index report for November will be released. Economists expect to see a modest 0.1 percent increase in producer prices during the month and a 0.6 percent gain year-over-year. Core producer inflation, which strips out the impact of volatile food and energy prices, is expected to show 0.2 percent growth during the month and 1.5 percent growth year-over-year. If estimates prove accurate, this report would be another sign that the moderate inflationary pressure we saw during the summer has largely subsided. Inflation remains well below the Federal Reserve's stated 2 percent target. As we end the year, economists expect to see modest price pressure due to the worsening public health picture.

Friday will also see the release of the preliminary estimate of the University of Michigan consumer sentiment survey for December. Economists expect sentiment to fall, with forecasts calling for a drop from 76.9 in November to 76 in December. This result would be the lowest level for the index since August, highlighting the negative impact of the worsening public health picture. Hope exists that the positive vaccine news released in November will bolster consumer confidence. In November, however, the second and final monthly report for this index was released after

What to Look Forward To (continued)

the vaccine news was announced. It showed a decline in confidence throughout the month, indicating rising case counts likely outweighed the positive vaccine news. The index bottomed at 71.8 in April, which means the forecasted result would leave consumer sentiment above that pandemic-induced low-water mark. We have a long way to go, however, to return to the pre-pandemic high of 101 set in February. Historically, improving consumer confidence has supported faster consumer spending growth, so this release will continue to be widely monitored.

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