WEEKLY MARKET UPDATE, APRIL 20, 2020

GENERAL MARKET NEWS

• Rates moved lower last week, with the 10-year Treasury yield reaching 0.58 percent and opening slightly higher on Monday at 0.63 percent. The 30-year opened at 1.25 percent, and the 2-year opened at 0.19 percent. Rates are reacting to the COVID-19 pandemic and have started paying attention to the economic impact it will have this year and into 2021. The Federal Reserve is set to meet next Wednesday, April 29.

• Markets continued their rally last week, as new daily coronavirus cases showed some signs of leveling off at the country level, and there were discussions about a potential path to reopening the U.S. economy. We saw companies that have benefited from the recent environment, such as Amazon, Walmart, and Netflix, reach all-time highs. The former two names helped make consumer discretionary the top-performing sector on the week. This was followed by the health care sector, which benefited from reports of work on a potential vaccine and drug treatment (Remdesivir) being done by companies such as Johnson & Johnson and Gilead Sciences. Technology also performed well, with NVIDIA and Intel among the top contributors in the S&P 500 for the week. The financials sector was the worst performer, with many banks indicating higher-level loan-loss provisions. Other weaker sectors included REITs and materials.

• On Wednesday, March's retail sales report was released. Sales fell by 8.7 percent during the month, which was worse than economist estimates for an 8 percent decline. This is the worst monthly result on record, easily surpassing the previous record sales decline of 3.9 percent, which we saw in November 2008. Consumer spending accounts for roughly two-thirds of economic activity in the U.S., so this sharp drop in sales is very concerning, although not surprising.

• Wednesday also saw the release of the National Association of Home Builders Housing Market Index for April. This measure of home builder confidence came in worse than expected, falling from 72 in March to 30 in April, against calls for a more modest drop to 55. This is the worst monthly drop for home builder confidence in history, and the index now sits at a seven-year low. Confidence had improved steadily throughout 2019 and the start of 2020, driven by low mortgage rates that spurred prospective buyers into the market. The increase in confidence led to a surge in new home construction, but April's large decline in confidence is expected to slow new construction.

• We saw a glimpse of this on Thursday, when March's housings starts and builder permits reports were released. Housing starts fell by 22.3 percent during the month, which was worse than estimates for an 18.7

percent drop. This is the worst monthly decline for starts since 1984. Permits held up a bit better, falling 6.8 percent against expectations for a 10.7 percent fall. This brought the pace of new home construction to its lowest level since July 2019, and April's results are expected to show additional weakness.

• Finally, we finished the week with Thursday's release of the initial jobless claims report for the week ending April 11. This report showed mass layoffs continuing well into April, with an additional 5,245,000 Americans filing initial unemployment claims during the week. This is down from 6,615,000 initial claims the week before and better than economist expectations for 5,500,000 initial filers. Despite the slightly better-than-expected result for the week, the fact of the matter is that that more than 22 million jobs were lost in a four-week period, which is unprecedented.

WHAT TO LOOK FORWARD TO

On Wednesday, the retail sales report for On Tuesday, March's existing home sales report will be released. Economists expect to see sales decline by 7.3 percent during the month, due to the headwinds created by efforts to contain the coronavirus. While this result would be disappointing, it would leave the pace of new sales slightly higher than it was in March 2019. Sales of existing homes fell throughout much of 2018 before rebounding impressively throughout much of 2019 and the start of 2020. If estimates hold, the March report would mark the ninth straight month with year-over-year growth in existing home sales. But March is likely to be the last month with year-over-year growth for the foreseeable future, given last year's strength and the numerous headwinds the sector is facing.

On Thursday, the U.S. initial jobless claims for the week ending April 18 will be released. Economists expect an additional 4.5 million initial claims to have been filed during the week. If this estimate holds, the four-week total of new filers would exceed 23 million. While this figure is quite worrisome, a bit of a silver lining may exist in terms of the types of jobs lost. We will continue to monitor this weekly release until we get a sign that the pace of layoffs and dismissals has returned closer to levels seen before the crisis.

Thursday will also see the release of April's IHS Markit Flash U.S. Composite Purchasing Managers' Index reports. These surveys are expected to show a large monthly decline in business confidence for both the manufacturing and service sectors. Manufacturing confidence is anticipated to fall from 48.5 in March to 36 in April, while service sector confidence is set to drop from 39.8 to 31.3. These are diffusion indices, where values below 50 indicate contraction, so these results would be worrisome, especially given March's weak results. If the estimates hold, the composite index, which combines manufacturer and service sector confidence, would sit at a level that typically indicates a 10 percent contraction to annual gross domestic product. Business sentiment and investing were weak throughout much of 2019 before showing signs of recovery to start the year. Currently, given the understandably weak confidence figures in March and anticipation for continued weakness, indications are for business spending to remain constrained.

March's new home sales report will be the third major data release on Thursday. New home sales are expected to fall by 15 percent during the month, following a 4.4 percent decline in February. Compared with existing home sales, new home sales are a smaller and more volatile portion of the overall housing market. Accordingly, weakness resulting from the coronavirus crisis is understandable. If the estimates hold, the March report would bring the pace of new home sales to its lowest level since May 2019. In coming months, we can once again expect weakness to continue due to the ongoing measures to combat the coronavirus and the changes to consumer spending resulting from the crisis.

On Friday, March's preliminary durable goods orders report will be released. Orders are expected to fall by 12 percent during the month, following a better-than-expected 1.2 percent increase in February. Some of this anticipated decline can be attributed to a slowdown in volatile aircraft orders. But another factor may be an expected 5 percent decline in core durable goods orders, which strip out the impact of transportation orders. If the estimates hold, the March numbers would mark the largest single-month decline in core durable goods orders since January 2009. Then, core durable goods orders fell by 10.2 percent month-over-month in the middle of the global financial crisis. Core durable goods orders are often viewed as a proxy for business investment, so a decline would once again be a concern but not a surprise.

Finally, we'll finish the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey for April. The preliminary report released earlier in the month showed consumer confidence falling from 89.1 in March to 71 in April, which was the largest single-month decline in the survey's history. Economists expect the final report to show a further decline to 69, as efforts to combat the coronavirus and large-scale layoffs continue to weigh on consumers. Improved confidence typically supports faster spending growth, so further declines would be a bad sign for April's consumer spending figures. Consumer sentiment will be an important area to monitor as we continue to combat the spread of the coronavirus. A fulfillment to our hope for a swift V-shaped economic recovery will likely hinge on consumers quickly regaining confidence and returning to spending levels seen before the crisis. Ultimately, if consumer confidence remains depressed throughout the year, spending will probably follow suit. Any signs of a rebound in confidence in the coming months would therefore be quite welcome.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	3.07%	11.32%	–10.49%	0.94%
Nasdaq Composite	6.10%	12.37%	–3.32%	9.32%
DJIA	2.24%	10.72%	–14.45%	–6.47%
MSCI EAFE	0.77%	4.04%	–19.71%	–13.18%
MSCI Emerging Markets	1.51%	6.32%	–18.77%	–15.31%
Russell 2000	–1.40%	6.64%	–26.00%	–20.32%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.70%	4.74%	11.00%
U.S. Treasury	0.39%	8.73%	14.56%
U.S. Mortgages	–0.22%	3.07%	7.61%
Municipal Bond	0.50%	–0.18%	4.52%

Source: Morningstar Direct

Disclosures: 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.

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