WEEKLY MARKET UPDATE, APRIL 27, 2020

GENERAL MARKET NEWS

• The rates market experienced some volatility last week, but it ended the week only slightly below where it started. The 10-year Treasury yield dropped from 0.65 percent to 0.53 percent last week and opened at 0.62 percent on Monday. The 30-year was as high as 1.41 percent about 10 days ago and now stands at 1.19 percent, while the 2-year has stayed quite steady over the past 10 days and opened at 0.22 percent. The Federal Reserve (Fed) is set to meet this week.

• Markets posted a modest sell-off last week. Oil ended up down 32.3 percent, the largest weekly drop ever recorded. This was the result of lower demand due to shelter-in-place orders, higher production amid significant pumping by Russia and Saudi Arabia, and a shortage of storage capacity. Despite the drop, the energy sector was the only positive sector, as the sell-off from the early part of the week waned on discussions of potential reopening in Europe and certain U.S. states. Other strong sectors included communication services and consumer discretionary, which were supported by Facebook and Amazon. Those stocks rose 6.04 percent and 1.48 percent, respectively. The sectors that underperformed included REITs, utilities, consumer staples, and financials. Companies such as AT&T, Coca-Cola, Berkshire Hathaway, and Bank of America were among the top underperformers. Financials were hit hard, as a number of banks have increased their provisions for lost or nonperforming loans.

• On Tuesday, March's existing home sales report was released. Sales of existing homes fell by 8.5 percent during the month, which was better than the 9 percent drop that was expected. This decline was due in large part to the social distancing efforts that went into place across the country around midmonth. Despite the monthly decline, on a year-over-year basis, sales rose modestly. Going forward, further weakness in home sales is expected.

• On Thursday, the initial jobless claims for the week ending April 18 were released. An additional 4,427,000 initial claims were filed during the week, better than economist estimates for 4,500,000. This brought the 5-week total up to more than 26.5 million new filers, which is unprecedented in American history. We will continue to monitor this weekly release until we get a sign that the pace of firings has returned closer to pre-crisis levels.

• Thursday will also saw the release of March's new home sales report. New home sales fell by 15.4 percent during the month, which was slightly better than calls for a 16.1 percent decline. This is a smaller and more volatile portion of the overall housing market compared with existing home sales. This result brought the pace of new home sales to its lowest level since May 2019.

• On Friday, March's preliminary durable goods orders report was released. Orders fell by 14.4 percent during the month, which was worse than economist expectations for a 12 percent drop. Much of this decline can be attributed to a slowdown in aircraft orders. Core durable goods orders, which strip out the impact of volatile transportation orders, held up better than expected, falling by 0.2 percent against expectations for a 6.5 percent decline. This surprising resiliency for core durable goods orders indicates that business spending did not see the sharp contraction that was expected during the month.

• Finally, we finished the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey for April. Surprisingly, confidence improved slightly during the month, rising from an initial estimate of 71 at midmonth to 71.8 at month-end. Despite the slightly better-than-expected end result, this still represents a sharp drop from the 89.1 reading in March. In fact, this marks the worst monthly drop in the survey's history.

WHAT TO LOOK FORWARD TO

On Tuesday, the Conference Board Consumer Confidence Index for April is set to be released. Confidence is expected to plunge from a surprisingly strong 120 in March to 87.8 in April. This would bring the index to its lowest level since 2014, in an echo of the large decline we saw in the University of Michigan consumer sentiment survey last week. Looking forward, mass layoffs and continued shelter-in-place efforts around the country should continue to serve as a headwind against improvements to consumer confidence. As communities and businesses attempt to return to normal over the coming months, it will be important to monitor this index. Our hopes for a swift economic recovery largely rely on a sharp rebound in consumer confidence and spending.

On Wednesday, the first estimate of first-quarter gross domestic product growth will be released. Economist forecasts are calling for a 3.7 percent annualized decline during the quarter, down from the 2.1 percent annualized growth achieved in the fourth quarter of 2019. Expectations for lowered consumer spending, the major driver of economic growth in 2019, are the basis for the negative forecast. Personal consumption, which increased by 1.8 percent on an annualized basis in the fourth quarter of 2019, is set to decline by 2.3 percent annualized during the first quarter. This figure would mark the worst result since the fourth quarter of 2008. Although these expectations are concerning, the real damage from the efforts to combat the coronavirus is expected to come in the second quarter. Economists are currently predicting a roughly 25 percent annualized decline in economic output in that time period.

Wednesday will also see the release of the Federal Open Market Committee rate decision from the Fed's April meeting. The Fed had previously lowered the federal funds rate to zero, where it is expected to remain for the duration of the crisis. To provide accommodations to the market, the Fed will continue to use its other policy tools. Market participants will be focused on the language chosen by the Fed to discuss the April meeting. The press release will give us insights into the Fed's views on the current economic environment; it might also supply hints regarding future measures to support the economy.

On Thursday, March's personal income and personal spending reports are both set to be released. Personal income is expected to fall by 1.3 percent during the month, down from a 0.6 percent increase in February. Spending is set to fall even further, with forecasts calling for a 4.2 percent decline. Accordingly, March would mark the worst single month for spending growth on record, far surpassing the previous record of a 1.4 percent slump in November 2008. The estimate is due in large part to a sharp drop in consumer spending on services such as airlines and restaurants, both of which saw activity virtually stop by midmonth. Again, while the anticipated March figures are bad, the real damage is expected to show up in April.

Thursday will also see the release of the weekly U.S. initial jobless claims report for the week ending April 25. Economists expect to see an additional 3.5 million initial claims filed during the week, down from the roughly 4.4 million filed the previous week. Nonetheless, if estimates hold, the 6-week total would rise to roughly 30 million newly unemployed Americans. While the peak in initial jobless claims is likely past for the time being, we will continue to monitor this weekly report to see how quickly the levels of weekly initial claims approaches normal.

Finally, we'll finish the week with Friday's release of the April Institute for Supply Management (ISM) Manufacturing index. This measure of manufacturer confidence is expected to decline from 49.1 in March to 36.7 in April. This result would put the index roughly in line with levels last seen during the great financial crisis, during which confidence bottomed out at 34.5 in December 2008. It would also echo the results from the IHS Markit Flash PMI survey released last week. The ISM Manufacturing index is a diffusion index, where values below 50 indicate contraction. A decline in April would serve as another example of how hard hit the manufacturing industry has been by government policies to combat the coronavirus.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.30%	9.88%	–11.66%	–1.10%
Nasdaq Composite	–0.18%	12.16%	–3.49%	7.66%
DJIA	–1.90%	8.61%	–16.08%	–7.91%
MSCI EAFE	–2.02%	1.93%	–21.34%	–14.58%
MSCI Emerging Markets	–2.40%	3.77%	–20.72%	–16.14%
Russell 2000	0.33%	6.99%	–25.76%	–20.56%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.24%	4.99%	11.05%
U.S. Treasury	0.44%	9.21%	14.84%
U.S. Mortgages	0.07%	3.14%	7.54%
Municipal Bond	–0.96%	–1.14%	3.16%

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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