WEEKLY MARKET UPDATE, APRIL 6, 2020

GENERAL MARKET NEWS

- The 10-year Treasury yield opened at 0.61 percent on Monday. The 2-year opened at 0.25 percent, and the 30-year remained elevated, opening at 1.25 percent. The anticipation of the U.S. Treasury issuing a record amount of 30-year debt to pay for the $2 trillion stimulus package is keeping long rates higher. COVID-19's long-term effect on American lives and the U.S. economy is still yet to be fully understood. We expect to see continued volatility in the weeks to come.

- Global indices sold off last week, as President Trump extended social distancing guidelines through April 30 due to the continued spread of COVID-19. Small-caps in particular were hit the hardest, as shelter-in-place orders and stay-at-home advisories continued to hamper business. On Friday, Bank of America reported that 85,000 customers applied for $22.2 billion in small business loans in the first day of the small business relief program. The technology-heavy Nasdaq Composite and the MSCI Emerging Markets Index both held up relatively well, with Chinese manufacturing ramping back up.

- The top-performing sectors on the week—all of which posted positive gains—were energy, consumer staples, and health care. Energy was supported by news of a potential oil production cut from Saudi Arabia and Russia, following their recent pricing feud. The worst-performing sectors included utilities, financials, and REITs.

- On Tuesday, the Conference Board Consumer Confidence Index for March was released. Consumer confidence fell from an upwardly revised 132.6 in February down to 120 in March, which was better than expectations for a further decline to 110. This brought the index down to its lowest level since July 2017. Consumers were primarily concerned with what the future holds, as the subindex that measures future expectations fell from 108.1 in February down to 88.2 in March. The measure of current conditions had a much shorter fall, dropping from 169.3 in February to 167.7 in March. This surprising strength in the present situation subindex indicates that there is still plenty of room for this index to fall in upcoming months.

- Wednesday saw the release of the Institute for Supply Management (ISM) Manufacturing index for March. This measure of manufacturer confidence beat expectations, falling from 50.1 in February to 49.1 in March, against forecasts for a further fall to 44.5. This is a diffusion index, where values above 50 indicate expansion and values below 50 indicate contraction. This better-than-expected result left the index above the recent 47.8 we saw in December 2019. Despite this, the underlying data was concerning, as the subindex that measures new orders fell from 49.8 to 42.2, suggesting that demand is swiftly drying up. Business confidence will be an important area to monitor going forward, as sharp drops in confidence likely indicate that business investment will remain weak for the foreseeable future.

• On Friday, March's employment report was released. A staggering 701,000 jobs were lost during the month, which was far more than the forecasted decline of 100,000. This marks the first month with net job loss since 2010, breaking an extraordinary streak of gains. The unemployment rate increased to 4.4 percent, up from 3.5 percent in February. This was a grim report, but it understates the true damage done to the economy during the month, as this report only covered the first two weeks of March and the pace of layoffs increased dramatically during the second half of the month. April's employment report is expected to show significantly more job losses and a climbing unemployment rate.

• Finally, we finished the week with Friday's release of the ISM Nonmanufacturing index for March. This measure of service sector confidence fell from 57.3 in February to 52.5 in March, which was much better than the expected fall to 43. As is the case with the manufacturing index, this is a diffusion index, where values above 50 indicate expansion, so this better than expected result revealed the service sector's surprising resilience during the month. Despite the better-than-expected results for manufacturing and nonmanufacturing confidence, future surveys are expected to show significantly lower confidence levels as businesses adapt to the new economic reality.

WHAT TO LOOK FORWARD TO

Wednesday will see the release of the Federal Open Market Committee (FOMC) minutes from the Federal Reserve's (Fed's) emergency meetings on March 3 and March 15. The minutes will provide a look into the Fed's rationale for cutting the federal funds rate to effectively zero through two surprise rate cuts earlier in the month. The commentary is expected to be slightly dated, given the rapidly escalating situation and subsequent Fed actions to support the markets. The Fed announced a suite of quantitative easing measures in the weeks following its March 15 meeting. It will be interesting to see if alternative measures were discussed at the March meetings that haven't yet been used. Based on the scope and timing of its actions in March, the Fed is clearly committed to supporting the financial system though this crisis. The FOMC minutes may give us a hint as to what additional stimulus by the Fed may look like.

On Thursday, the Producer Price Index for March will be released. Economists expect to see headline inflation decline by 0.3 percent during the month, largely due to lowered gas prices. This result would bring year-over-year headline producer inflation down to 0.5 percent, marking its lowest level since 2016. Core producer prices, which strip out the impact of volatile energy and gas prices, are expected to remain flat for the month. This result would translate to modest 1.2 percent year-over-year core producer inflation. Producer inflation fell throughout much of 2019. Low producer price pressure is expected to continue in the short term, due to the collapse in global demand during the current crisis.

Thursday will also see the release of the weekly U.S. initial jobless claims report for the week ending April 4. Economists expect 5 million more Americans to file initial unemployment claims for the week, following two weeks during which roughly 10 million Americans filed new claims. The past two reports clearly showed the economic headwinds created by the measures to combat the spread of the coronavirus. The recent surge in initial jobless claims is unprecedented in U.S. history. This weekly report will continue to be a closely monitored gauge of the job market, given its relatively up-to-date issuance.

The third major release on Thursday will be the preliminary estimate of the University of Michigan consumer sentiment survey for April. Economists are calling for a steep drop from 89.1 in March to 80 in April. This result would bring the index down to its lowest level since 2013, as consumers are coming to grips with the new economic reality in a country largely locked down. Historically, a strong jobs market and appreciating stock markets tend to support higher consumer confidence levels. So, given the economic climate, there is little hope for an immediate turnaround. High confidence levels typically support additional spending growth, so a decline would bode poorly for April's consumer spending figures.

Finally, we'll finish the week with Friday's release of the Consumer Price Index for March. As was the case with producer prices, economists expect to see a 0.3 percent decline in headline consumer prices, driven by falling gas prices. Core consumer inflation, which strips out energy and food prices, is set to increase by a modest 0.1 percent during the month. On a year-over-year basis, headline consumer inflation is forecast to increase by 1.6 percent, while core prices should increase by 2.3 percent. Inflation remained well constrained in 2019, despite three rate cuts from the Fed during the year. Given the massive disruption to the jobs market over the past month and the Fed's stated desire to let inflation run above its 2 percent target if necessary, the Fed would be unlikely to raise rates in the short term even if inflation accelerates.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.02%	–3.68%	–22.56%	–11.83%
Nasdaq Composite	–1.69%	–4.23%	–17.59%	–5.57%
DJIA	–2.65%	–3.89%	–25.74%	–18.23%
MSCI EAFE	–3.76%	–4.66%	–26.43%	–19.89%
MSCI Emerging Markets	–1.20%	–1.95%	–25.09%	–21.00%
Russell 2000	–6.99%	–8.75%	–36.69%	–31.88%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.73%	3.42%	9.65%
U.S. Treasury	0.79%	9.00%	14.65%
U.S. Mortgages	0.10%	2.92%	7.43%
Municipal Bond	0.73%	3.42%	9.65%

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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