WEEKLY MARKET UPDATE, AUGUST 10, 2020

GENERAL MARKET NEWS

• The 10-year Treasury yield reached another record low last Thursday of 0.50 percent before slowly increasing to 0.55 percent, where it opened Monday morning. The 2-year also reached a new low last week of 0.11 percent before opening on Monday at 0.12 percent. The 30-year remains well above its historic low yield, trading at 1.22 percent on Monday, and the 20-year is trading at 0.95 percent, slightly above its historical low. The large amount of new 10-year and 30-year supply this week could move rates higher.

• During last week's rally in the S&P 500, we continued to see large tech and communication service names, such as Apple, Microsoft, and Facebook, push the index higher.

• Looking at returns, sectors such as industrials, energy, and financials also fared well. Industrials were led by a massive earnings surprise of more than 100 percent by UPS, as the firm was able to keep costs in check despite increasing demand in the second quarter. Financials were supported by Berkshire Hathaway, which announced a $5.1 billion share buyback. The result was a rally in financials and value toward the end of the week.

• We started the week with Monday's release of the Institute for Supply Management (ISM) Manufacturing index for July. This measure of manufacturer confidence rose from 52.6 in June to 54.2 in July, against forecasts for a more modest increase to 53.6. This result marks an impressive three-month rebound for manufacturer confidence after the index hit a multiyear low of 41.5 in April. This is a diffusion index, where values below 50 indicate contraction and values above 50 indicate expansion. So, this quick recovery up to expansionary territory once reopening efforts began was quite welcome. The index now sits at its highest level in more than a year, which is a good sign for business spending and investment as the economic recovery continues.

• On Wednesday, the ISM Services index for July was released. The index rose from 57.1 in June to 58.1 in July, against expectations for a fall to 55. This is another diffusion index, where values above 50 indicate expansion. This continued improvement in July was encouraging because it indicated service sector confidence held up well despite rising case counts throughout the month. Ultimately, the better-than-expected results for manufacturing and service sector confidence bode well for business spending and hiring.

• Speaking of hiring, we saw the impact from the strong business sentiment during the month with Friday's release of the July employment report. The economy added 1.76 million jobs in July, which was better than economist estimates for 1.48 million. Although this is down from the 4.79 million jobs added in June, this marks the third consecutive month with more than 1 million jobs added after anticoronavirus measures in March and April devastated the labor market. The underlying data was positive as well, with the unemployment rate falling from 11.1 percent in June to 10.2 percent in July, against expectations for a more modest decline to 10.6 percent. Hourly earnings, which were expected to fall by 0.5 percent, also impressed by rising 0.2 percent. All in all, this was an encouraging report that showed hiring improvements continued during the month despite concerns of rising case counts hurting the economic recovery. Looking forward, there is still real work to be done to return to pre-pandemic employment levels, but this continued improvement is very encouraging.

WHAT TO LOOK FORWARD TO

On Tuesday, July's Producer Price Index is set to be released. This measure of producer inflation is expected to rise by 0.3 percent during the month after falling by 0.2 percent in June. This result would leave producer prices down 0.7 percent year-over-year. Core producer inflation, which strips out the impact of volatile food and energy prices, is expected to show a modest 0.1 percent increase during the month, which would translate to a year-over-year increase of just 0.1 percent. Producer inflation had been muted before the pandemic, but, in April, headline inflation fell by the biggest percentage on record, highlighting the deflationary pressure created by anticoronavirus measures during the early stages of the crisis.

On Wednesday, July's Consumer Price Index will be released. As was the case with producer inflation, economists expect to see a 0.3 percent rise in headline consumer inflation during the month. This increase would bring the year-over-year pace of consumer inflation to 0.7 percent, up from 0.6 percent in June. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to go up a modest 0.2 percent for the month and 1.1 percent year-over-year. Even if estimates hold for producer and consumer prices in July, inflation would still sit well below the Federal Reserve's (Fed's) stated 2 percent inflation target. Ultimately, the Fed is unlikely to see modestly increasing inflationary pressure as a major concern, given the significant damage to the labor market and the need to keep policy supportive until more jobs are regained.

On Thursday, the weekly initial jobless claims report for the week ending August 8 will be released. Economists expect to see a modest decline in initial unemployment claims, from 1.19 million to 1.15 million. That continuing improvement would be an encouraging development, indicating the job market was able to withstand pressures created by rising COVID-19 case counts. But was last week's better-than-expected result for initial and continuing claims the start of a new downward trend or just an aberration? We'll have to wait and see, so this release will be widely followed. Even if the anticipated improvement for initial claims occurs, they would remain significantly above historically normal levels, highlighting the work that must be done to return the employment market to healthy levels. We'll continue to monitor this weekly release until initial and continuing claims revert more closely to past norms.

On Friday, July's retail sales report is set to be released. Sales are expected to rise by 1.8 percent during the month, following a better-than-expected 7.5 percent increase in June.

Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to show solid 1.2 percent growth during the month after rising by 6.7 percent in June. Sales staged an impressive rebound in May and June once reopening efforts began, and continued growth in July would be another sign consumers are willing and able to spend despite rising case counts. This result would be especially encouraging, given that both major measures of consumer confidence fell during the month, a scenario that typically serves as a headwind for sales growth. Consumer spending accounts for the lion's share of economic activity, so increased spending in July would be a good sign for overall economic growth to start the third quarter.

Also on Friday, July's industrial production report is due to be released. Production is expected to rise by a solid 3 percent during the month, following a 5.4 percent increase in June. This increase is expected to be supported by a 3 percent rise in manufacturing output during the month. Industrial production and manufacturing output were boosted in May and June by factory reopening efforts across the country. This report will serve as an important test regarding the ability of production to continue to rebound despite rising case counts during the month. Given the better-than-expected business confidence we saw in July, an increase in production makes sense. Still, despite the rebound in production we've seen since reopening efforts began, the estimated level of production for July would remain below pre-pandemic levels, highlighting the likelihood of a long road back to full recovery.

Finally, we'll finish the week with the preliminary estimate of the University of Michigan consumer sentiment survey for August. Economists expect to see this measure of consumer confidence fall from 72.5 in July to 71.5 in August. If estimates hold, the index would fall below April's measure of 71.8, marking an eight-year low. Rising case counts and slowing reopening efforts caused consumer confidence to decline in July, and continued case growth will likely provide a similar headwind for confidence in August. Typically, improving consumer confidence supports faster consumer spending growth, so a decline for the second month in a row would be concerning. Economists will be closely monitoring confidence and spending figures over the next few months to gauge the pace of the ongoing economic recovery.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.49%	2.49%	4.93%	16.32%
Nasdaq Composite	2.51%	2.51%	23.42%	38.39%
DJIA	3.88%	3.88%	–2.50%	6.53%
MSCI EAFE	1.95%	1.95%	–7.50%	2.89%
MSCI Emerging Markets	0.99%	0.99%	–0.75%	13.32%
Russell 2000	6.03%	6.03%	–5.18%	3.93%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.10%	7.83%	8.71%
U.S. Treasury	–0.15%	9.79%	9.48%
U.S. Mortgages	0.14%	3.83%	5.14%
Municipal Bond	0.47%	4.28%	4.78%

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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