WEEKLY MARKET UPDATE, AUGUST 3, 2020

GENERAL MARKET NEWS

• Treasury rates reached historical lows last week as the 10-year yield slid to 0.51 percent. The 30-year touched 1.20 percent, its lowest level since April, and the 2-year reached its new low of 0.10 percent on Monday. Poor gross domestic product (GDP) numbers from last week, combined with Federal Reserve (Fed) commentary on providing more support and the continued battle with COVID-19, had a hand in pushing rates (especially shorter-term rates) to new lows.

• The Nasdaq Composite continued its leadership last week, with Facebook, Amazon, Apple, and Alphabet/Google reporting earnings on Thursday. The results came on the heels of high-profile leaders from each company testifying before Congress on Wednesday. According to Nasdaq, all four firms beat consensus earnings estimates by more than 20 percent. Amazon posted strong results as the coronavirus has fueled its sales. Apple was particularly strong, as the company brushed off store closures in March and April and posted better-than-expected results. The stock was up 14.73 percent for the week, and the firm announced it would conduct a four-to-one stock split on August 24. The lone name that lagged out of the big four that reported last week was Alphabet/Google, as the firm experienced some softness in its cloud segment. Microsoft, which saw similar slowing cloud growth, will be something to watch in future earnings releases.

• On Monday, June's preliminary durable goods orders report was released. Orders rose 7.3 percent, against forecasts for a 6.9 percent increase. This follows a downwardly revised 15.1 percent increase in May that was supported by factory reopening efforts throughout the month. Core durable goods orders, which strip out the impact of volatile transportation orders, increased by 3.3 percent in June, slightly below expectations for a 3.6 percent increase. Core durable goods orders are often used as a proxy for business spending, so the continued rebound in core orders we saw in June is a reassuring sign that business spending was bolstered by reopening efforts.

• On Tuesday, the Conference Board Consumer Confidence Index for July was released. Consumer confidence fell from 98.3 in June to 92.6 in July, against forecasts for a more modest decline to 95. This disappointing result is in line with similar declines in the preliminary reading of the University of Michigan consumer sentiment survey for the month. This larger-than-expected decline was caused by falling expectations for future economic growth, as consumers likely see rising case counts as a headwind. The index remains above the recent low of 85.7 in April, so this still represents an improvement compared with the height of the crisis; however, rising consumer confidence typically supports faster consumer spending growth, so this sharp decline is concerning and should be monitored going forward.

• On Wednesday, the Federal Open Market Committee (FOMC) released its rate decision for its scheduled July meeting. The committee cut the federal funds rate to virtually zero at the start of the pandemic, and, as expected, there were no changes made at this meeting. Members also supported continued open market purchases of Treasury and mortgage-backed securities over the upcoming months. At his post-meeting news conference, Fed Chair Jerome Powell reiterated the Fed's commitment to using all of the tools available to support the ongoing economic recovery. Powell noted that although rising case counts remain a large concern, additional fiscal stimulus from Congress would be seen as a positive development.

• Thursday saw the release of the first estimate of second-quarter GDP growth. The economy contracted at an annualized rate of 32.9 percent, which was slightly better than economist estimates for a 34.5 percent annualized contraction. This is the worst single quarter for economic growth in modern history, surpassing the 8.4 percent annualized decline in the fourth quarter of 2008. This report shows the devastating impact anticoronavirus measures had on the economy during the quarter. A sharp drop in personal consumption was the primary driver of the economic contraction; the 34.6 percent annualized decline in consumption was the largest quarterly decline on record. These are certainly concerning figures, but it's important to recognize this is backward-looking data and that economists anticipate a double-digit rebound in GDP growth in the third quarter.

• On Friday, June's personal income and personal spending reports were released. Results were mixed, with spending increasing by more than expected and incomes falling by more than forecast. Personal spending increased by 5.6 percent in June, against calls for a 5.2 percent increase. Personal spending staged an impressive recovery in May, rising 8.2 percent after falling by more than 12 percent in April. This continued spending growth for June makes sense, given the strong retail sales growth we saw during the month. Personal income, on the other hand, fell by 1.1 percent against forecasts for a 0.6 percent decline. Incomes have been volatile due to the $1,200 refundable tax credits that were distributed in April, causing the index to increase by a record 12.1 percent in April before declining 4.2 percent in May. Given the lack of recurring government stimulus payments during the month, the decline in income makes sense.

• We finished the week with the second and final estimate for the University of Michigan consumer sentiment survey for July. Consumer confidence fell from 73.2 midmonth to 72.5 at month-end, against expectations for a more modest fall to 72.9. As was the case with the Conference Board measure of consumer confidence, rising case counts throughout the month likely served as a headwind for consumer sentiment. The index hit an eight-year low of 71.8 in April, so this decline brought consumer sentiment near recent lows after seeing a partial rebound to 78.1 in June. Ultimately, the declines we saw in July for both major measures of consumer confidence indicate the economic recovery we saw in May and June likely moderated notably in July.

WHAT TO LOOK FORWARD TO

We started the week with Monday's release of the Institute for Supply Management (ISM) Manufacturing index for July. This measure of manufacturer confidence increased by more than expected. It rose from 52.6 in June to 54.2 in July, against forecasts for a more modest increase to 53.6. This better-than-expected 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 international trade report for June is set to be released. The trade deficit is expected to narrow during the month, from $54.6 billion in May to $50.3 billion in June. May saw the trade deficit reach its widest point in more than a year. If expectations prove to be accurate, it would bring the deficit closer to levels seen throughout much of 2019. Exports and imports are expected to show solid growth during the month, after the pace of international trade fell to its lowest overall level in more than a decade in May. Looking forward, imports and exports are expected to show continued recovery over the next few months; however, given the disruption created by the pandemic, it will likely take a long time before trade volumes recover to pre-crisis levels.

Wednesday will also see the release of the ISM Nonmanufacturing index for July. This measure of service sector confidence is expected to fall from 57.1 in June to 55 in July. As was the case with the manufacturing index, service sector confidence staged an impressive recovery once reopening efforts began after hitting a low of 41.8 in April. This is another diffusion index, where values above 50 indicate expansion. So, even if estimates prove to be accurate, service sector confidence would still serve as a positive tailwind for business spending in July. Both manufacturer and service sector confidence benefited from reopening efforts in May and June; however, the July reports will give us an opportunity to see how business confidence has been affected by rising case counts throughout the month.

On Thursday, the weekly initial jobless claims report for the week ending August 1 is set to be released. Economists expect to see an additional 1.45 million initial claims filed during the week, which would mark the third straight week with increasing initial claims. As we've seen over the past two weeks, rising case counts and the slowdown of reopening efforts throughout the month have served as a headwind for further improvements to initial jobless claims. This headwind is expected to remain in place until the public health picture improves and reopening efforts can continue in earnest. Both initial and continuing unemployment claims remain high compared with historical averages, and we will continue to monitor these weekly releases until claims can return to more normal levels.

We'll finish the week with Friday's release of the July employment report. Economists expect to see 1.875 million jobs added during the month, following a better-than-expected 4.8 million jobs added in June. This would mark the third consecutive month with more than 1 million new jobs added, after anticoronavirus measures in March and April devastated the labor market. The underlying data is also expected to show improvement, as the unemployment rate is expected to fall from 11.1 percent in June to 10.5 percent in July. Although this would be a welcome improvement, it would still leave the unemployment rate higher than at any point during the great financial crisis, highlighting the very real work that remains to return to pre-pandemic employment levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.75%	0.00%	2.38%	12.96%
Nasdaq Composite	3.70%	0.00%	20.40%	33.83%
DJIA	–0.15%	0.00%	–6.14%	1.88%
MSCI EAFE	–2.12%	0.00%	–9.28%	–1.53%
MSCI Emerging Markets	1.76%	0.00%	–1.72%	7.83%
Russell 2000	0.89%	0.00%	–10.57%	–3.13%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.30%	7.72%	9.41%
U.S. Treasury	0.35%	9.96%	10.93%
U.S. Mortgages	0.26%	3.69%	5.08%
Municipal Bond	0.36%	3.80%	5.11%

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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