WEEKLY MARKET UPDATE, JULY 13, 2020

GENERAL MARKET NEWS

• Rates moved lower last week, reaching their lowest point since March, with the 10-year Treasury yield closing at 0.56 percent Friday and opening at 0.62 percent on Monday. The 30-year opened at 1.34 percent on Monday, having closed at 1.24 percent on Friday. The 2-year also reached its lowest level since the spring; it closed at 0.13 percent on Friday and opened at 0.15 percent this Monday morning. Mortgage rates are also at historical lows.

• U.S. equities were led by the tech-oriented Nasdaq Composite last week. Investors continued to flock to Facebook, Apple, Amazon, Microsoft, and Google. All of these names were up by more than 3.5 percent on the week, with Amazon up by double digits. Other tech names, such as Tesla and Netflix, posted even greater gains. The end of the week also saw large banks (i.e., JPMorgan, Citi, Morgan Stanley, Goldman Sachs, and Bank of America) tick higher, on news from Gilead Sciences that its drug Remdesivir may reduce COVID-19 deaths by as much as 62 percent in extremely sick patients.

• The top-performing sectors on the week were consumer discretionary (led by Amazon and Tesla), communications services (led by Facebook and Alphabet), and technology (led by Microsoft and Nvidia). The worst-performing sectors were energy, REITs, and industrials, as the coronavirus made demand murky.

• On Monday, the Institute for Supply Management Nonmanufacturing index for June was released. This measure of service sector confidence far surpassed economist estimates, increasing from 45.5 in May to 57.1 in June, against calls for a more modest increase to 50.2. This is a diffusion index, where values above 50 indicate expansion, so this swift rebound back above 50 after hitting a 10-year low of 41.8 in April is very encouraging. The service sector accounts for the lion's share of economic activity, so the rapid recovery in confidence we saw in June was a good sign for the ongoing economic recovery. Ultimately, this report showed the pace of economic recovery was likely faster than initially expected once reopening efforts took hold.

• On Friday, the Producer Price Index for June was released. Producer prices declined by more than expected during the month, falling by 0.2 percent against expectations for a 0.4 percent increase. On a year-over-year basis, producer prices contracted by 0.8 percent, which was larger than the 0.2 percent decline that was expected. Core producer prices, which strip out the impact of volatile food and energy prices, also came in below expectations, increasing by 0.1 percent against calls for a 0.4 percent increase. Inflationary pressures have largely been kept at bay over the past few months due to the massive shock to demand that was created by the pandemic.

WHAT TO LOOK FORWARD TO

On Tuesday, the Consumer Price Index for June is set to be released. Headline consumer inflation is expected to show 0.5 percent growth for the month, which would translate to year-over-year consumer inflation of 0.6 percent. Regarding headline consumer inflation, the increase is anticipated due to rising gas prices in June, which were driven up by the increased cost of oil. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to increase by a more modest 0.1 percent during the month and 1.1 percent on a year-over-year basis. As was the case with producer prices, the pandemic has served as a headwind for inflation over the past few months. Nonetheless, with consumer spending picking up notably in June, economists expect increased activity to lead to modest inflationary pressure. If the estimates hold for headline and core consumer prices in June, inflation would remain well below the Federal Reserve's stated 2 percent target. As such, it is not expected to be a major concern for the central bank in the short term.

Wednesday will see the release of June's industrial production report. Production is slated to increase by a strong 4.3 percent during the month, following a 1.4 percent increase in May. Manufacturing output is also expected to show healthy growth, with forecasts calling for a 5.9 percent increase in output in June. Compared to consumer data, May's industrial production report showed a slower rebound following reopening efforts, but this can be largely attributed to a slower pace of factory openings. Given that many factories reopened in the second half of May and early part of June, the anticipated acceleration of industrial production and manufacturing output growth in June makes sense. Despite the anticipated increases for industrial production and manufacturing output, both indicators fell by double digits in April. If the estimates for June prove to be accurate, this sector has a long way to go to return to pre-pandemic levels.

On Thursday, the weekly initial jobless claims report for the week ending July 11 is set to be released. Economists expect to see a further reduction in initial unemployment claims during the week, with an additional 1.25 million initial claims expected, down from just over 1.31 million the week before. If estimates prove to be accurate, this report would mark the 15th straight week of declining initial claims after a spike to an all-time high of more than 6.8 million initial claims for the week ending March 27. Continuing claims are also expected to decline from 18 million. Despite these anticipated declines, initial claims would still sit well above the average of roughly 220,000 weekly claims we saw in 2019. We'll continue to monitor this weekly report until initial claim levels return closer to normal.

Thursday will also see the release of June's retail sales report. Economists expect to see sales increase by a strong 4.5 percent during the month, following a record 17.7 percent increase in May. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to rise by 5.4 percent in June, following the 12.4 percent jump in May. May's exceptionally strong rebound in sales was bolstered by reopening efforts across the country, which should continue to serve as a tailwind in June. High-frequency data showed a continued uptick in consumer activity early in the month; however, a slowdown in certain metrics occurred toward month-end as coronavirus case counts rose. Consumer spending accounts for roughly two-thirds of overall economic activity, so a continued rebound in sales in June would be a good sign for the ongoing economic recovery in the face of higher case counts.

The third major economic report on Thursday will be the release of the National Association of Home Builders Housing Market Index for July. This measure of home builder confidence is expected to increase from 58 in June to 60 in July. The index hit a seven-year low of 30 in April, as lockdowns forced prospective home buyers to press pause on purchases. Since this is a diffusion index, where values above 50 indicate expansion, its strong rebound since April has been very encouraging. Home builders cited significantly higher levels of prospective home buyer foot traffic in June compared with April and May as a major factor in the swift improvement in confidence. This trend is expected to continue in July due to historically low mortgage rates. Ultimately, higher levels of home builder confidence help support faster new home construction, so improvements to this index would be a good sign for future home construction and the overall housing market.

Speaking of new home construction, Friday will see the release of June's building permits and housing starts reports. These two measures of new home construction are expected to show continued recovery, with permits and starts set to rise by 6.7 percent and 20.3 percent, respectively. These measures can be very volatile from month to month, but June would mark the second straight month with increased housing starts after the index hit a five-year low in April. The record increase in home builder confidence in June is expected to serve as a tailwind for construction during the month, resulting in an anticipated increase of roughly 1.17 million annual new housing starts. If estimates hold, the pace of housing starts would reach levels last seen at the beginning of 2019. Despite this anticipated jump, however, starts would be well below January's high-water mark of more than 1.6 million, indicating this sector is still far off recent highs.

Finally, we'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for July. This widely followed measure of consumer confidence is expected to increase from 78.1 in June to 80 in July. This important data release will give a first look at how consumer sentiment was affected by rising coronavirus case counts in June. The factors that have historically supported higher consumer confidence, namely low gas prices, a strong job market, and strong equity market performance, have largely shown signs of moderation over the past month, which is expected to weigh on consumer sentiment. Improving consumer confidence typically supports faster consumer spending growth, so any improvement for the index would certainly be seen as a positive development. If estimates are accurate, however, the index would still sit well below the recent high of 101 set in February. While this survey has shown a solid rebound in confidence after hitting an eight-year low of 71.8 in March, confidence is still far from pre-pandemic levels. We'll continue to closely monitor this release as the economic recovery continues.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.79%	2.79%	–0.38%	8.29%
Nasdaq Composite	4.02%	5.57%	18.95%	30.88%
DJIA	0.98%	1.08%	–7.44%	–1.35%
MSCI EAFE	0.50%	1.88%	–9.68%	–3.23%
MSCI Emerging Markets	3.65%	7.77%	–2.77%	3.82%
Russell 2000	–0.63%	–1.27%	–14.09%	–7.33%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.42%	6.71%	9.80%
U.S. Treasury	0.44%	9.08%	11.54%
U.S. Mortgages	0.09%	3.59%	5.78%
Municipal Bond	0.50%	2.58%	4.61%

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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