WEEKLY MARKET UPDATE, JULY 20, 2020

GENERAL MARKET NEWS

- Rates continued to move lower last week, with the 10-year Treasury yield falling from a high of 0.66 percent on Monday to 0.63 percent on Friday. Long-term yields moved in unison, with the 30-year yield falling from a peak of 1.36 percent on Monday to 1.33 percent on Friday.

- U.S. equities were led by the Dow last week, as industrial blue-chip names outperformed the recent high-flying FAANG companies (Facebook, Amazon, Apple, Netflix, and Google). Earnings season kicked off with banks such as Morgan Stanley, Goldman Sachs, and JP Morgan among the outperformers. These firms benefited in the face of lower rates as trading revenues helped offset the effects. Health care was also bolstered by a report from the New England Journal of Medicine that a 45-person trial for a potential COVID-19 vaccine yielded positive results.

- Materials and utilities rounded out the top-performing sectors, as the Federal Reserve (Fed) continues to target a 2 percent inflation rate, and a second round of stimulus could support sectors that benefit from price inflation. The worst-performing sectors included consumer discretionary, technology, and communication services. The consumer discretionary sector was likely affected by greater restrictions in states with growing cases. Technology saw a dip in its strong run with some weakness in the software space. Communication services were driven down by a miss by Netflix.

- On Tuesday, the Consumer Price Index for June was released. Headline consumer inflation increased by 0.6 percent for the month, which was slightly above estimates for a 0.5 percent increase. This brought the year-over-year pace of consumer inflation up to 0.6 percent. Core consumer prices, which strip out the impact of volatile food and energy prices, rose by a more modest 0.2 percent, bringing the pace of year-over-year core consumer inflation to 1.2 percent. The pandemic served as a headwind for inflationary pressures throughout the past few months; however, with consumer spending continuing to pick up in June, economists expect increased activity to lead to more inflationary pressure. Despite the increase in headline and core inflation during the month, consumer inflation still remains well below the Fed's stated 2 percent target and is not expected to be a major concern for the central bank in the short term.

• On Thursday, June's retail sales report was released. Retail sales grew by 7.5 percent during the month, beating economist estimates for 5 percent growth. May's record gain of 17.7 percent was also revised up to 18.2 percent. Core retail sales, which strip out the impact of volatile auto and gas sales, also beat expectations for 5 percent growth, instead increasing by 6.7 percent. May's exceptionally strong rebound in sales was bolstered by reopening efforts across the country, and continued efforts in June served as a similar tailwind. Consumer spending accounts for roughly two-thirds of overall economic activity, so the continued rebound in sales in June is a good sign despite rising case counts during the month.

• Thursday also saw the release of the National Association of Home Builders Housing Market Index for July. This measure of home builder confidence increased from 58 in June to 72 in July, against expectations for a more modest increase to 61. This is a very strong rebound considering the index hit a seven-year low of 30 in April, as lockdowns forced prospective home buyers to press pause on purchases during the month. Home builders cited strong sales and continued improvement in prospective home buyer foot traffic as the major factors that led to this better-than-expected result in July. Ultimately, higher levels of home builder confidence help support faster new home construction, so this swift recovery for home builder confidence is a good sign for future home construction and the overall housing market.

• Speaking of new home construction, Friday saw the release of June's building permits and housing starts reports, which both came in below expectations. Permits increased by 2.1 percent against calls for a 6.3 percent increase. Housing starts increased by 17.3 percent against estimates for 22.2 percent growth. Despite coming in below economist expectations, both housing starts and permits sit well above the low points set in April. The rise in housing starts is a good sign for the overall housing market, as supply remains constrained in some regions. Despite the partial recovery in home building activity since reopening efforts began, we still have a long way to go to get back to pre-pandemic activity levels.

• Finally, we finished 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 unexpectedly fell from 78.1 in June to 73.2 in July, against calls for a modest increase to 79. Rising case counts during the month led to declining consumer optimism, with both the current situation and future expectations subindices declining during the month. This is a concerning result, as declining consumer confidence is a headwind for future consumer spending growth. With this disappointing release, the index now sits well below the recent high of 101 set in February. While we saw an initial rebound in confidence in May and June as reopening efforts began, the continued spread of the coronavirus indicates that confidence will likely remain constrained until further progress is made on the public health front.

WHAT TO LOOK FORWARD TO

On Wednesday, June's existing home sales report is set to be released. Existing home sales are expected to increase by 22.8 percent during the month, after falling by 9.7 percent in May to hit their lowest level since 2010. So, a rebound here, while welcome, would still leave the pace of existing home sales far below recent highs. In fact, if estimates hold, existing home sales would be down more than 9 percent on a year-over-year basis. This sector staged an impressive rally throughout 2019 and the start of 2020, as low mortgage rates and high consumer confidence drove growth throughout the year. Given the negative effects of the pandemic, it's not surprising that existing home sales cratered in April, but even accounting for a potential rebound in June, work must be done to get back to pre-pandemic levels.

On Thursday, the weekly initial jobless claims report for the week ending July 18 will be released. Economists expect to see a modest decline in initial claims, from 1.3 million to 1.28 million. The rising case counts we've seen throughout July are expected to serve as a headwind for further improvements for the job market, with many states either halting or, in some cases, rolling back reopening efforts to control localized outbreaks. While these efforts are likely prudent from a public health perspective, they are expected to moderate the pace of the economic recovery. As both initial and continuing unemployment claims remain high compared with historical norms, we'll continue to monitor these weekly releases until the numbers return to more normal levels.

We'll finish the week with Friday's release of June's new home sales report. New home sales are expected to increase by 3.6 percent during the month, following a surprising 16.6 percent jump in May. This segment is a smaller and often more volatile portion of total home sales compared with existing homes, as we saw in May. If estimates hold, the pace of new home sales would be brought above levels last seen in November 2019, highlighting a very swift recovery since reopening efforts kicked off in May. Given increased home builder confidence in July, driven by a rise in home buyer foot traffic, the anticipated increase in new home sales makes sense. It would be a welcome sign for the health of the overall housing market.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.27%	4.10%	0.89%	9.81%
Nasdaq Composite	–1.08%	4.43%	17.67%	29.29%
DJIA	2.32%	3.42%	–5.30%	0.41%
MSCI EAFE	2.20%	4.12%	–7.69%	–0.41%
MSCI Emerging Markets	–1.22%	6.45%	–3.96%	2.77%
Russell 2000	3.57%	2.26%	–11.01%	–3.89%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.23%	6.96%	9.53%
U.S. Treasury	0.05%	9.13%	11.02%
U.S. Mortgages	–0.03%	3.56%	5.38%
Municipal Bond	0.44%	3.04%	4.90%

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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