WEEKLY MARKET UPDATE, JULY 27, 2020

GENERAL MARKET NEWS

• The 10-year Treasury yield fell to 0.55 percent last week, slightly above the historical low of 0.54 percent reached on March 9. It opened at 0.57 percent on Monday. The 2-year yield opened at 0.14 percent, and the 30-year yield opened at 1.21 percent. With short-term rates at or near all-time lows, a slowing economy, and continued coronavirus concerns, there will likely be new lows in Treasuries and mortgages in the days and weeks to come.

• U.S. equities were down last week. The tech-oriented Nasdaq Composite struggled the most, as big names in the space—Microsoft and Intel—sold off after reporting their earnings. Microsoft reported slower cloud computing growth than expected, and Intel reported there would be a delay in the rollout of its next generation of chips. Communication services and health care also struggled. The best-performing sectors included energy, consumer discretionary, and financials. The value-oriented sectors in energy and financials outperformed growth names due to concerns about historically high valuations. There have also been concerns regarding the economic recovery, as states such as California and Texas passed restrictions to help slow the spread of the coronavirus. In addition, U.S.-China geopolitical tensions increased, with each country closing its consulate (i.e., Houston and ChengDu) in the other's country.

• On Wednesday, June's existing home sales report was released. Sales increased by 20.7 percent during the month after falling by 9.7 percent in May. This was slightly below economist estimates for a 21.4 percent increase, but still represents the best single month for existing home sales growth on record. Even with this strong result for June, sales are down more than 11 percent on a year-over-year basis, so there is still real work to be done to get this portion of the housing market back to pre-pandemic levels.

• We finished the week with Friday's release of the June new home sales report. New home sales came in far better than expected, increasing by 13.8 percent, against expectations for a more modest 3.6 percent increase. This follows an upwardly revised 19.4 percent increase in new home sales in May. This performance brought the pace of new home sales to its highest level since 2007, as record low mortgage rates led to a surge in new home sales once reopening efforts began. New home sales are a smaller and often more volatile portion of the housing market compared with existing home sales, but the strong rebound we saw in new home sales in May and June indicates that sectors of the housing market served as a bright spot in the initial economic rebound.

WHAT TO LOOK FORWARD TO

On Monday, June's preliminary durable goods orders report was released. Durable goods orders increased by more than expected, rising 7.3 percent during the month against forecasts for a 6.9 percent increase. This result follows a downwardly revised 15.1 percent increase in May that was supported by factory reopening efforts. 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 rise. Core durable goods orders are often used as a proxy for business spending, so the continued rebound in core orders in June is a reassuring sign that business spending was bolstered by reopening efforts.

Tuesday will see the release of the Conference Board Consumer Confidence Index for July. Economists expect to see consumer sentiment fall modestly during the month, from 98.1 in June to 95 in July. While this result would be disappointing, it would be in line with a similar decline in the preliminary reading of the University of Michigan consumer sentiment index for July. Rising coronavirus case counts across the country are expected to serve as a headwind for any gains in confidence until the public health picture improves. Stronger consumer confidence typically supports faster consumer spending growth, so this anticipated decline is concerning, albeit understandable.

On Wednesday, the Federal Open Market Committee will release its rate decision. As the federal funds rate was cut to virtually zero at the start of the pandemic, economists do not expect any rate hikes this year. Given the worsening public health situation since the committee met in early June, the July press release should discuss the negative effects that rising coronavirus case counts are expected to have on the economic recovery. The uncertainty surrounding efforts to contain the coronavirus was previously mentioned by Federal Reserve members as a major risk factor for economic improvement. The central bank will likely use the July meeting to reiterate its desire to keep monetary policy as supportive as possible throughout the crisis.

On Thursday, the weekly initial jobless claims report for the week ending July 25 will be released. Economists are currently forecasting a modest decline from 1.42 million initial unemployment claims the week before to 1.41 million. As we saw last week, rising coronavirus case counts and the associated pause or rolling back of reopening efforts in certain states have begun to impede improvements to initial jobless claims. This headwind is expected to continue until the public health picture is brighter. Both initial and continuing unemployment claims remain high compared to historical norms, so we'll be monitoring these weekly releases until claims return to more normal levels.

Thursday will also see the release of the first estimate of gross domestic product (GDP) growth for the second quarter. Economists expect to see a 34 percent annualized decline in economic output during the quarter, highlighting the devastating impact that anti-coronavirus measures had on the economy. Personal consumption, which is expected to be the major driver of the anticipated economic contraction, is expected to decline 35 percent on an annualized basis. These figures are certainly concerning, but it's important to recognize that this data looks backward and economists anticipate a double-digit rebound in third-quarter GDP growth. Ultimately, this release will give us a better picture of the economic disruption in the second quarter and the work required to get economic output back to levels seen before the crisis.

On Friday, June's personal income and personal spending reports are set to be released. Economists expect the results to be mixed. Forecasts look for spending to increase by 5.5 percent and incomes to fall by 1 percent. Personal spending staged an impressive recovery in May, rising 8.2 percent after dropping by more than 12 percent in April. Continued spending growth for June makes sense, given the strong retail sales growth during the month. Incomes have been volatile over the past two months. Due to the $1,200 refundable tax credits distributed in April, personal income soared by a record 10.8 percent during the month, before declining by 4.2 percent in May. Given the lack of recurring government stimulus payments and the continued stress on the jobs market, the anticipated decline in incomes in June makes sense. Looking forward, additional rounds of direct economic stimulus to consumers could support income growth, but, at this time, no final plans are in place for such payments.

We'll finish the week with the second and final estimate of the University of Michigan consumer sentiment survey for July. The index is expected to fall modestly from 73.2 midmonth to 72.7 at month-end. As with the Conference Board Consumer Confidence Index, economists expect rising coronavirus case counts to serve as a headwind for improvements. The anticipated decline would bring the index close to the eight-year low of 71.8 recorded in April, which was followed by a partial rebound to 78.1 in June. If estimates prove to be accurate, they would signal a notable moderation of the economic recovery we saw in May and June and a poor outlook for July's consumer spending reports.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.27%	3.82%	0.62%	9.19%
Nasdaq Composite	–1.33%	3.04%	16.10%	27.08%
DJIA	–0.74%	2.66%	–6.00%	–0.05%
MSCI EAFE	0.41%	4.55%	–7.31%	–0.67%
MSCI Emerging Markets	0.56%	7.05%	–3.42%	3.01%
Russell 2000	–0.38%	1.86%	–11.36%	–4.62%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.41%	7.40%	10.05%
U.S. Treasury	0.41%	9.58%	11.76%
U.S. Mortgages	–0.14%	3.42%	5.23%
Municipal Bond	0.38%	3.43%	5.13%

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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