WEEKLY MARKET UPDATE, JUNE 15, 2020

GENERAL MARKET NEWS

• Rates took a bit of a roller coaster ride last week, as the 10-year Treasury yield spiked to as high as 0.93 percent following the previous week's sell-off in the bond market. In fact, most of last week's rates came back down just about as fast as they spiked the week before. The 10-year opened at 0.66 percent on Monday. The 30-year reached a high of 1.75 percent over the same time frame, falling to 1.40 percent as of Monday morning. The 2-year, which reached a recent high of 0.23 percent, opened at 0.18 percent.

• Global equities sold off last week, as a caution from the Federal Reserve (Fed) and concerns over another increase in coronavirus cases moved investors to the sidelines. Fed Chairman Jerome Powell said Fed officials expect to keep rates near zero through at least 2022. As has been the case throughout the year, the tech-oriented Nasdaq was least affected. Indices such as the Russell 2000, which provides exposure to smaller businesses, were hit harder. Last week, we witnessed a reversal of the value trend seen in the prior three weeks. During that time, stocks that had been beat up by the virus rallied; this was flipped last week, as value sectors, such as energy, financials, industrials, and materials, were all hit hard. Sectors that held up best included technology, communication services, and consumer discretionary.

• On Wednesday, May's Consumer Price Index was released. Consumer prices fell modestly by 0.1 percent during the month, against expectations for no change. This brought the pace of year-over-year consumer inflation to a paltry 0.1 percent. Core consumer prices, which strip out the impact of volatile food and energy prices, also declined by 0.1 percent for the month, against expectations to remain flat. The April inflation reports showed the massive deflationary pressure caused by the coronavirus pandemic. Looking forward, this pressure is expected to remain until economic activity picks up notably.

• Also on Wednesday, the Federal Open Market Committee released its rate decision at its June meeting. As expected, the Fed kept the federal funds rate unchanged. The Fed also released economic forecasts that painted a bleak picture for the near future, with the economy expected to face considerable risks over the short and intermediate term. The Fed predicts a 6.5 percent decline in gross domestic product this year and a year-end unemployment rate of 9.3 percent. As a response to this discouraging outlook, the Fed remains committed to keeping rates low for the foreseeable future. Although the forecasts were dire, the Fed's commitment to provide as much support as necessary shows that the central bank is ready and willing to pull out all the stops to help stimulate the economy.

• On Thursday, May's Producer Price Index was released. Producer prices increased by 0.4 percent during the month, surpassing estimates for 0.1 percent growth. This brought the year-over-year pace of producer deflation up to –0.8 percent, from –1.2 percent in April. Core producer prices, which strip out energy and food prices, fell by 0.1 percent during the month, bringing the pace of year-over-year core producer inflation to 0.3 percent. This marks a four-year low for year-over-year core producer inflation. As was the case with consumer inflation estimates, economists aren't anticipating a swift increase in producer inflation, given the headwinds created by the pandemic and the expected moderate pace of economic recovery.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for June. This measure of consumer confidence beat expectations, rising from 72.3 in May to 78.9 in June, against forecasts for a more modest increase to 75. This was the largest single-month increase for the index since 2016, indicating consumers reacted positively to reopening efforts that began in May. The better-than-expected May jobs report, along with strong equity market performance over the past few months, likely contributed to this result. Although this was certainly a welcome development, the index still sits well below its pre-pandemic high of 101, set in February.

WHAT TO LOOK FORWARD TO

On Tuesday, May's retail sales report is set to be released. Headline sales are expected to increase by 7.9 percent during the month, following a 16.4 percent decline in April. Although an increase would certainly be welcome, it's important to remember that the pandemic caused headline sales to drop by a combined 23.4 percent between February and April. One of the major drivers of this anticipated increase in headline sales is a rise in auto and gas sales, which rebounded in May as reopening efforts took hold. Core sales, which strip out the impact of volatile auto and gas prices, are set to increase by 4.5 percent in May, following a 16.2 percent decline in April. Again, while the anticipated increase in core sales would be welcome, it will likely be a long time before the overall pace of sales returns to pre-pandemic levels. Because consumer spending accounts for the lion's share of economic activity, this release will continue to be widely monitored.

May's industrial production report will also be released Tuesday. Production is expected to rise by 3 percent during the month, following an 11.2 percent decline in April. Factories were largely shut down in April and began gradually reopening in May, which explains the anticipated rebound. Manufacturing output is expected to top that gain, with economists forecasting a 5.9 percent increase to follow the 13.7 percent decline in April. Looking forward, both industrial production and manufacturing output are expected to face headwinds created by low energy prices, lowered global demand, and disrupted supply chains due to the pandemic. Compared with service-based sectors, a swift recovery to pre-pandemic levels may be more difficult for the industrial sector.

The third major release scheduled for Tuesday is the National Association of Home Builders Housing Market Index for June. This measure of home builder confidence is slated to increase from 37 in May to 44 in June. This would mark the second consecutive month of increased home builder confidence, following the index's drop to a seven-year low of 30 in April. Despite the anticipated increase, the index would sit far below its recent high of 76, set in December 2019. Home builders cited a steep fall in foot traffic from potential buyers due to the pandemic as a major driver of this decline in confidence. But, with the country reopening, potential buyers may come back faster than expected. Such a rebound would likely lead to a faster-than-expected recovery for home builder confidence and spending.

On Wednesday, May's building permits and housing starts reports are set to be released. Economists expect to see a strong rebound in both measures of new home construction, with permits and starts expected to increase by 14.9 percent and 23.5 percent, respectively. Nonetheless, these solid results would represent only a partial rebound from April, when anticoronavirus measures caused permits to fall by 20.8 percent and starts to plummet by 30.2 percent. As was the case with home builder confidence, the forecasted rebound for permits and starts in May would be a positive development for the housing market. Still, even if estimates hold, this segment has a long way to go before returning to recent highs.

We'll finish the week with Thursday's release of the weekly initial jobless claims report for the week ending June 13. Economists expect that 1.295 million initial unemployment claims will be filed during the week, down from 1.542 million the week before. Continuing claims are also expected to fall, from roughly 20.9 million to 19.4 million. If estimates hold, this report would mark the 11th consecutive week with declining initial claims. Although this anticipated decline is welcome, initial and continuing claims sit well above historical norms, indicating the jobs market remains under significant stress despite reopening efforts that began in May. We will continue to monitor these important weekly releases until we see claims return to more normal levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–4.73%	–0.01%	–4.98%	7.29%
Nasdaq Composite	–2.27%	1.09%	7.38%	23.62%
DJIA	–5.51%	0.96%	–9.20%	0.53%
MSCI EAFE	–4.21%	2.55%	–12.07%	–3.67%
MSCI Emerging Markets	–1.53%	6.23%	–10.73%	–1.02%
Russell 2000	–7.89%	–0.39%	–16.28%	–8.29%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.72%	5.71%	9.21%
U.S. Treasury	1.30%	8.35%	10.72%
U.S. Mortgages	0.16%	3.68%	6.30%
Municipal Bond	0.56%	1.82%	4.49%

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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