WEEKLY MARKET UPDATE, MAY 18, 2020

GENERAL MARKET NEWS

• On Tuesday, May 12, the Treasury issued new 10-year debt, which led yields to drop from 0.70 percent to 0.58 percent before bouncing back to current levels on Friday. The 10-year Treasury yield opened at 0.64 percent on Monday. The 2-year yield opened at 0.14 percent, and the 30-year yield opened at 1.34 percent. The U.S. Treasury is issuing a lot of new debt to help fight the economic effects of COVID 19, but yields remain at or close to historical lows.

• Global equities moved lower this past week. Jitters surrounding the restart of the economy as well as increased tensions with China were potential reasons for the sell-off. Trade tensions with China flared as the U.S. placed new export restrictions on semiconductors and Huawei products. Beijing responded with threats to place restrictions on Qualcomm, Cisco, and Apple.

• The top-performing sectors on the week were health care, consumer discretionary, and communication services. The worst performers included energy, REITs, and industrials. Hotels and airlines were particularly notable pockets during the sell-off in REITs and industrials.

• On Tuesday, April's Consumer Price Index was released. Consumer prices fell by 0.8 percent during the month, in line with economist expectations. This brought year-over-year inflation down to 0.3 percent, which was slightly below expectations for 0.4 percent. Core inflation, which strips out the impact of volatile energy and food prices, fell by 0.4 percent during the month, bringing annual core inflation down to 1.4 percent. The massive shock to consumer demand created by efforts to battle the spread of the coronavirus is expected to continue to hold back inflationary pressures in the short term.

• On Wednesday, the Producer Price Index was released. Headline producer inflation fell by 1.3 percent during the month, far surpassing economist estimates for a 0.5 percent decline. On a year-over-year basis, producer prices fell by 1.2 percent. This brought the pace of producer inflation to its lowest level in more than four years. Falling gasoline prices were one of the major drivers of the deflationary pressure on headline producer prices, as gas prices fell by the most since records began in 1947. Core producer inflation, which strips out the impact of volatile gas and food prices, fell by 0.3 percent, bringing the pace of annual core inflation to 0.6 percent in April. Given the deflationary pressure created by the ongoing pandemic, inflation is expected to remain contained for the time being.

• Friday saw the release of April's retail sales report. Sales came in worse than expected during the month, falling by 16.4 percent on a monthly basis, against forecasts for a 12 percent decline. This follows an upwardly revised 8.3 percent decline in March, which at the time was the record for the worst single month decline on record. For perspective, the worst back-to-back months during the 2008 financial crisis saw sales fall by a combined 6.7 percent. Perhaps more concerning than the headline decrease was the core retail sales figure, which strips out volatile gas and auto purchases. This proxy for true consumer demand fell by 16.2 percent during the month, far worse than estimates for a 7.6 percent decline. Once again, this represents the worst monthly result on record, easily surpassing last month's low water mark of –2.8 percent. Consumer spending is the major driver of economic growth, and these historically bad reports indicate that the second-quarter gross domestic product report is likely to be terrible.

• Finally, we finished the week with Friday's release of the first estimate of the University of Michigan consumer sentiment survey for May. This widely followed measure of consumer confidence increased from 71.8 in April up to 73.7 in May, against expectations for a decline to 68. This follows a sharp decline from 89.1 in March, so the modest increase still left the index at low levels when compared to the recent high of 101 set in February. This improving confidence was driven by increased optimism around the current situation, as the subindex that measures present conditions increased during the month while future expectations fell. Part of this can be attributed to the fact that more Americans received stimulus checks during the month, but efforts to open up some state economies likely played a role as well. While the increase during the month was welcome, we still have a long way to go before confidence and spending levels reach pre-pandemic levels, so this will continue to be a widely monitored report.

WHAT TO LOOK FORWARD TO

We started the week with Monday morning's release of the National Association of Home Builders Housing Market Index for May. This measure of home builder confidence increased from 30 in April to 37 in May, slightly better than expectations for a move to 35. Following a steep fall from 72 in March to an eight-year low of 30 in April, this modest rebound leaves the index well below levels seen earlier this year. Home builders cited significant declines in prospective buyers and construction challenges due to measures to combat the spread of the coronavirus as two key factors causing sentiment to plunge in April. This report showed that these headwinds persisted into the beginning of May. Low levels of home builder confidence are expected to slow the pace of new home construction.

Speaking of new home construction, on Tuesday, April's building permits and housing starts reports are set to be released. These measures of new home construction are expected to show a steep drop-off in the pace of new home construction. Building permits are set to decline by 25.9 percent, while starts are expected to fall by 23.6 percent. That would bring the pace of housing starts to a four-year low, offsetting the gains in the second half of 2019 and the beginning of this year. These reports can be volatile on a month-to-month basis, however. Given the headwinds to the industry and the collapse in home builder confidence in April, further weakness in new home construction is expected.

Wednesday will see the release of the minutes from the April Federal Open Market Committee meeting. No major announcements were made, so the minutes are not likely to reveal major information. There has been some chatter recently about the potential for negative interest rates in the U.S., but Federal Reserve (Fed) Chairman Jerome Powell stated during an interview last week that the Fed does not intend to use negative rates as a policy tool. Instead, the Fed prefers to use other measures to support the economy and markets. We can expect the minutes to reveal additional commentary describing the economic outlook held by various Fed members at the end of the month, so this release will be worth monitoring.

On Thursday, the weekly U.S. initial jobless claims report for the week ending May 16 is set to be released. Economists anticipate the filing of an additional 2.4 million initial unemployment claims during the week. While this result would represent the seventh straight week with declining initial claims, the numbers would remain significantly higher than historical norms. For reference, initial claims averaged just under 220,000 a week throughout 2019. If the estimates hold, this report would show that mass layoffs have continued well into May. We'll continue to monitor this weekly gauge of the health of the jobs market until levels approach historical norms.

We'll finish the week with Thursday's release of April's existing home sales report. Sales are expected to decline by 18.3 percent during the month, following an 8.5 percent drop in March. With much of the country under shelter-in-place orders in April and home builders citing a large decline in foot traffic, a sharp drop in sales would make sense. If the estimates hold, a nine-month streak of year-over-year growth would be broken for existing home sales, one of the bright spots in the economic expansion in the second half of 2019. Going forward, further weakness in home sales is expected, given the steep drop-off in prospective buyers caused by the coronavirus.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.20%	–1.54%	–10.69%	1.54%
Nasdaq Composite	–1.15%	1.48%	0.84%	15.32%
DJIA	–2.61%	–2.56%	–16.27%	–6.21%
MSCI EAFE	–3.18%	–3.62%	–20.81%	–12.48%
MSCI Emerging Markets	–1.11%	–2.50%	–18.69%	–8.50%
Russell 2000	–5.42%	–4.01%	–24.25%	–18.06%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.33%	4.86%	10.14%
U.S. Treasury	0.41%	8.93%	13.54%
U.S. Mortgages	–0.07%	3.52%	7.27%
Municipal Bond	0.78%	–0.01%	3.17%

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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