WEEKLY MARKET UPDATE, MAY 4, 2020

GENERAL MARKET NEWS

• The 10-year Treasury yield opened at 0.59 percent on Monday, which is where it has been for the better part of the past three weeks. The 30-year yield opened at 1.23 percent, and the 2-year yield opened at 0.18 percent. With the start of the new month, we will receive numbers from April, which will give us a better idea of the effects of the quarantine. Interest rate markets have priced in some of the predictions but seem to be waiting for more economic data.

• The S&P 500, Dow Jones Industrial Average, and Nasdaq Composite were all down modestly on the week. Small-cap stocks saw a bounce, however, as the Federal Reserve (Fed) broadened its Main Street Lending Program to businesses with at least 15,000 employees and up to $5 billion in annual revenue. It also created a new loan program for firms with higher levels of debt. The Russell 2000 was up more than 2 percent for the week. The Main Street Lending Program's perceived support for smaller, distressed energy exploration and production companies made energy the top-performing sector on the week, followed by communication services and materials. The worst-performing sectors included utilities, health care, and consumer staples.

• On Tuesday, the Conference Board Consumer Confidence Index for April was released. Confidence fell by more than expected, declining from a downwardly revised 118.8 in March to 86.9 in April. This was slightly worse than economist estimates for a fall to 87 and represents the worst monthly decline since the oil embargo in 1973. This disappointing but unsurprising result brought the index to its lowest level since 2014. The decline in headline confidence was caused by a sharp drop in the present situation subindex, which fell from 166.7 in March to 76.4 in April. Given the unprecedented number of layoffs over the past two months and the continued efforts to combat the spread of the coronavirus, weak confidence is expected going forward.

• On Wednesday, the first estimate of first-quarter gross domestic product growth was released. The economy contracted at a 4.8 percent rate annualized during the quarter, which was worse than economist estimates for a 4 percent annualized decline. Personal consumption, which was the major driver of economic growth last year, declined by 7.6 percent annualized during the quarter, which was far worse than estimates for a 3.6 percent annualized decline. This marks the worst quarter for personal spending growth since the second quarter of 1980. While these very weak growth figures are concerning, they are likely just the tip of the iceberg, as economists are currently forecasting a 25.8 percent annualized contraction for the second quarter.

• Wednesday also saw the release of the Federal Open Market Committee rate decision for its April meeting. The Fed lowered the range of the federal funds rate to zero in March, and it reiterated the message that rates will remain low for the foreseeable future. Fed Chair Jerome Powell used his press conference to reassure market participants that the Fed is ready and able to continue to support markets and the economy during these uncertain times.

• On Thursday, March's personal income and personal spending reports were released. Personal income fell by 2 percent during the month, against expectations for a 1.7 percent decline. Spending fell even further, with a 7.5 percent drop, against expectations for a more moderate 5.1 percent decline. This was the worst single month for spending growth on record, far surpassing the previous monthly record of a 1.4 percent decline back in November 2008.

• Finally, we finished the week with Friday's release of the April Institute for Supply Management (ISM) Manufacturing index. This measure of manufacturer confidence fell from 49.1 in March to 41.5 in April, which was better than estimates for a further fall to 36. This is a diffusion index, where values below 50 indicate contraction. So, the current level of 41.5 is still quite concerning, as it shows how the manufacturing industry has been hit by factory closings and lowered global demand due to the coronavirus..

WHAT TO LOOK FORWARD TO

We'll start the week with Tuesday's release of the international trade report for March. Economists are forecasting a widening of the trade gap during the month, from a three-year low of $39.9 billion in February to $44.2 billion in March. As such, the deficit would move toward the $45.5 billion gap we saw in January. Part of this expectation can be attributed to China's decision to reopen factories in March after closing them in February. In addition, previously released trade data saw both imports and exports falling during March despite the resumption of some trade with China. Looking forward, both imports and exports are expected to fall even further in April, driven by the slowdown in global demand in the face of the coronavirus pandemic.

Also on Tuesday, the ISM Nonmanufacturing index is set to be released. Economists expect to see this measure of service sector confidence fall sharply from 52.5 in March to 37.2 in April. If this estimate holds, the index would sit at the lowest level on record, dropping below the low of 37.8 hit in November 2008. This is a diffusion index, where values below 50 indicate contraction. Accordingly, this anticipated drop is concerning, although not necessarily surprising given the shutdowns to most businesses during the month. Previously released surveys of service sector confidence showed a larger-than-expected decline in April, so the potential for a worse result exists.

Thursday will see the release of the weekly U.S. initial jobless claims report for the week ending May 2. Economists expect to see an additional 3 million initial claims filed during the week, down from the 3.84 million claims we saw the week before. Despite this anticipated decline, if estimates hold, the seven-week total would rise to more than 33 million newly unemployed Americans—an unprecedented amount. While we are likely past the peak for initial jobless claims, we will continue to monitor this weekly report. It's important to track how quickly we can get back to normal levels of weekly initial claims, which averaged just under 220,000 claims per week in 2019.

Finally, all eyes will be on Friday's release of April's employment report. While March's report gave a preview of the damage that the wide-scale shelter-in-place orders are having on the job market, April's results will give a more complete picture of the impact. Economists are currently estimating that 22 million jobs were lost during the month, which would send the unemployment rate skyrocketing to 16 percent. This figure would be well above the high-water mark of unemployment at 10 percent that we saw during the peak of the great financial crisis. Average hours worked is expected to decline to levels last seen in 2010. Given the fact that more than 30 million Americans filed initial unemployment claims in the past six weeks, this report will be a very bleak snapshot of the overall health of the jobs market. We can, however, hope that many of the lost jobs will be regained once shelter-in-place orders are lifted and state economies begin to open back up.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.19%	–2.80%	–11.83%	–1.01%
Nasdaq Composite	–0.33%	–3.19%	–3.80%	8.23%
DJIA	–0.22%	–2.55%	–16.26%	–7.57%
MSCI EAFE	3.07%	–1.31%	–18.92%	–12.11%
MSCI Emerging Markets	4.27%	–0.88%	–17.34%	–12.77%
Russell 2000	2.24%	–3.83%	–24.10%	–19.16%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.12%	4.86%	10.93%
U.S. Treasury	–0.37%	8.81%	14.43%
U.S. Mortgages	0.32%	3.47%	7.82%
Municipal Bond	–0.42%	–1.55%	2.41%

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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