WEEKLY MARKET UPDATE, OCTOBER 26, 2020

GENERAL MARKET NEWS

• Treasury yields steepened again last week. The 10-year opened at 0.75 percent and reached an intraday high of 0.87 percent on Friday before closing at 0.84 percent. It gave back 3 basis points (bps) this morning, opening at 0.81 percent. (The 30-year opened at 1.61 percent and the 2-year opened at 0.15 percent.) The 30-year gained 11 bps last week as the potential of stimulus packages near the election continued to be discussed.

• U.S. large-cap indices sold off as we saw underwhelming earnings reports from Intel and IBM. Intel shares came under pressure, with analysts continuing to express concerns over the firm's production for its next generation 7-nanometer chipset, an issue first raised last quarter. IBM reported a spin-off of its managed infrastructure services business as it looks to focus on cloud services. The two stocks were down 11 percent and 7.9 percent, respectively. Other technology stocks, such as Apple and Microsoft, also underperformed. The worst-performing sectors were technology, consumer staples, and real estate investment trusts. The top-performing sectors were communication services, utilities, and financials as a steepening of the yield curve, supported by potential stimulus, showed a chance of brighter days ahead for banks hurt by lower rates.

• On Tuesday, September's Consumer Price Index report was released. Consumer prices rose by 0.2 percent, in line with economist expectations and down from a 0.4 percent increase in August. Year-over-year, consumer inflation rose by 1.4 percent, as expected. Core consumer prices, which strip out the impact of volatile food and energy prices, rose by the expected 0.2 percent during the month and 1.7 percent year-over-year. Although lockdowns created deflationary pressure earlier in the year, reopening efforts led to an uptick in inflationary pressure throughout the summer. Despite the tailwind created by increased consumer demand, overall prices remain constrained, and the slowdown in September's consumer inflation indicates the tailwind appears to have faded.

• The Producer Price Index for September was released Wednesday. Unlike consumer prices, producer prices increased by more than expected, albeit at a slower pace than consumer inflation. Producer prices rose by 0.4 percent, against calls for a 0.2 percent increase. This brought the year-over-year rate of producer inflation up to 0.4 percent, marking the first time producer inflation has been positive year-over-year since March. Core producer inflation, which strips out food and energy prices, also rose by more than expected, up 0.4 percent during the month and 1.2 percent for the year, against forecasts for more modest 0.2 percent and 1 percent growth, respectively. Despite the moderate pickup in inflation since reopening efforts began, inflation still remains well below the Federal Reserve's (Fed's) stated 2 percent target, and the Fed is not expected to react to rising inflation by raising rates until and unless the job market improves considerably.

• We finished the week with Friday's release of the September retail sales report. Sales impressed, rising by 1.9 percent against calls for a more modest 0.8 percent increase. This marks the best month of sales since June and signals consumers were willing and able to continue spending despite expired government stimulus. Core retail sales, which strip out the impact of volatile auto and gas sales, also impressed, with a 1.5 percent increase against calls for a 0.5 percent increase. The gains were widespread, with traditional back-to-school categories and recreational goods showing notable strength. This strong report bodes well for third-quarter growth, given the importance of consumer spending on the overall economy.

WHAT TO LOOK FORWARD TO

On Monday, September's new home sales report was released. The pace of new home sales declined by 3.5 percent, from an annualized rate of 994,000 in August to 959,000 in September, against estimates for an increase to 1.03 million. Despite the modest decline, the pace of new home sales is up more than 33 percent year-over-year and remains well above pre-pandemic levels. The September slowdown in sales was likely due in large part to inventory being near record lows. New home sales are a smaller and often more volatile portion of the overall market compared with existing home sales. Accordingly, the modest pullback is nothing to worry about, especially given the strong rebound in overall housing sales since reopening efforts took hold.

September's durable goods orders report is set to be released on Tuesday. Durable goods orders are expected to rise by 0.6 percent during the month, following a 0.5 percent increase in August. Core durable goods, which strip out the impact of volatile transportation orders, are set to rise by 0.3 percent. Core durable goods are often used as a proxy for business investment, so continued growth here would be a positive sign during the quarter. Although durable goods orders have recovered since reopening efforts took hold, work remains to return to pre-pandemic levels. The overall level of orders was down more than 5 percent in August compared with the most recent high reached in February. If estimates hold, this report would signal that business investment during the quarter was a net positive for overall third-quarter economic growth.

Tuesday will also see the release of the Conference Board Consumer Confidence Index for October. This widely followed measure of consumer confidence is expected to remain flat at 101.8. The index saw its largest increase in 17 years in September, so a neutral month in October would be understandable. Historically, improving consumer confidence levels support faster spending growth, so any improvement here would certainly be welcome. Despite the rebound in confidence we've seen since reopening efforts kicked off, we have a long way to go to return confidence to the pre-pandemic high of 132.6 recorded in February.

On Thursday, we'll receive our first look at third-quarter gross domestic product growth. Economists are forecasting a 32 percent annualized increase in economic output during the quarter, following a 31.4 percent annualized decline in the second quarter. Rising personal consumption is expected to be the major driver of this growth. Predictions are for consumption to rise by 38.9 percent on an annualized basis, after declining by 33.2 percent in the second quarter. Business investment and government spending are expected to contribute to economic growth, while foreign trade should serve as a minor headwind. Although a rebound in economic activity would certainly be welcome, it's important to note that this report looks backward. The anticipated growth in the third quarter would not be enough to offset the declines in activity seen in the second quarter.

Thursday will also see the release of the weekly initial jobless claims report for the week ending October 24. Economists expect to see an additional 788,000 initial unemployment claims filed during the week, which would be a slight increase from the 787,000 initial claims recorded the week before. After peaking in late March, the pace of layoffs has shown signs of improvement over the course of the pandemic; nonetheless, claims remain stubbornly high. Given the continued high level of weekly claims and the slowing pace of new job creation, we could see a drop in overall employment in October, which would mark the first monthly decline since April. With the labor market lagging other sectors in the recent recovery, these weekly releases will continue to be closely monitored by economists.

September's personal income and personal spending reports will be released Friday. Personal spending is expected to rise by 1 percent during the month, following a 1 percent increase in August. Previously released retail sales data for September showed surprising strength in spending on goods, which should offset weak spending on services. Incomes are expected to rise by 0.3 percent during the month, following a 2.7 percent decline in August. Personal incomes have been very volatile throughout the pandemic, driven in large part by shifting government stimulus and unemployment benefit payments. Overall, if estimates hold, this update would be a solid confirmation of the resilience of consumer spending in September.

Finally, we'll finish the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey. The preliminary estimate released earlier in the month showed the index rising by more than expected, from 80.4 in September to 81.2 in October, against calls for a move to 80.4. Economists expect the index to remain unchanged from the preliminary estimate, which would mark the third consecutive month with increased confidence. Still, despite expectations for the index to stay at a seven-month high in October, it will be far from the high of 101 it reached in February. This fact highlights the work that needs to be done to get consumer sentiment back to pre-pandemic levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.51%	3.14%	8.88%	17.32%
Nasdaq Composite	–1.06%	3.43%	29.64%	42.43%
DJIA	–0.90%	2.09%	1.17%	8.25%
MSCI EAFE	0.11%	1.61%	–5.60%	–0.72%
MSCI Emerging Markets	1.11%	5.10%	3.88%	11.98%
Russell 2000	0.42%	8.85%	–0.60%	7.34%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.42%	6.36%	6.73%
U.S. Treasury	–0.59%	7.83%	7.45%
U.S. Mortgages	–0.06%	3.52%	4.22%
Municipal Bond	–0.07%	2.93%	3.74%

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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