WEEKLY MARKET UPDATE, OCTOBER 5, 2020

GENERAL MARKET NEWS

• After a few weeks of almost no movement, there was heightened volatility in the rates market last week. The 10-year Treasury yield swung from 0.63 percent to 0.72 percent and then back to 0.65 percent, opening at 0.72 percent Monday. With the ambiguity behind President Trump's health since he contracted the coronavirus and the election less than 30 days away, there has been a lot of uncertainty in the markets. Given the way rates have been trading, we may see some additional stimulus from the federal government.

• Last week, markets moved up across the board, with the S&P 500 breaking its four-week streak of declines. The Russell 2000 outperformed, as the small-cap index has a larger weighting for financials, which were among the top three sectors for the week. The Federal Reserve (Fed) extended its restriction on share buybacks and dividend increases for the largest banks through the end of 2020. While this was expected, it provides clarity on a potential deadline. Additionally, we saw a modest pickup in stimulus hopes as Treasury Secretary Steven Mnuchin plans to discuss a deal.

• Other top-performing sectors were REITs and utilities, although both saw a slight sell-off on Friday following the announcement of President Trump's coronavirus diagnosis. The sole sector to post a loss for the week was energy. Other laggards included technology and communication services.

• On Tuesday, the Conference Board Consumer Confidence Index for September was released. The index rose from 86.3 in August to 101.8 in September, against economist estimates for a more modest increase to 90. This marks the largest single-month increase for the index in more than 17 years, and it brought confidence to its highest level since the pandemic hit. The index peaked at 132.6 in February, so there is still a lot of work to be done to get back to pre-pandemic confidence levels; however, this was a step in the right direction following a disappointing July and August. Historically, improving consumer confidence levels support faster spending growth, so this was a good sign for September's consumer spending reports.

• On Thursday, August's personal income and personal spending reports were released. Spending came in above estimates, growing by 1 percent against calls for a 0.8 percent increase. This follows a downwardly revised 1.5 percent increase in spending in July. Personal spending has improved since reopening efforts began; however, the pace of improvement has started to cool. On the other hand, personal income disappointed, falling by 2.7 percent against calls for a 2.5 percent decline. Incomes have been volatile during the pandemic, as large-scale layoffs and shifting government stimulus measures have led to swings in monthly averages. This larger-than-expected decline was driven by the expiration of the supplemental unemployment benefits at the end of July.

• The Institute for Supply Management (ISM) Manufacturing index for September was also released on Thursday. This gauge of manufacturer confidence declined slightly during the month, from 56 in August to 55.4 in September, against calls for an increase to 56.5. Despite the modest decline, the index still sits at its second-highest level in more than a year. This is a diffusion index, where values above 50 indicate expansion, so this is still a strong result for the manufacturing industry. Manufacturing confidence and output have rebounded well since reopening efforts began, and this report is another sign that the manufacturing industry continued to recover at the end of the third quarter, driven by a rebound in demand once reopening efforts began.

• On Friday, September's employment report was released. This was a disappointing update, as 661,000 jobs were added during the month, well below economist estimates for 859,000. This is down considerably from the 1.3 million jobs added in August and marks the smallest number of additional jobs since reopening efforts began. The unemployment rate fell from 8.4 percent to 7.9 percent against forecasts for a more modest decline to 8.2 percent. Although the unemployment rate fell by more than expected, it was largely due to people dropping out of the workforce, as the labor force participation rate unexpectedly declined during the month. This report is yet another indication that the pace of the economic recovery has slowed, which is concerning given the large amount of work still to be done to get employment back to pre-pandemic levels. Ultimately, a full economic recovery will require significant improvement on the jobs front, so these monthly releases will continue to be closely monitored.

• We finished the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey for September. This measure of consumer confidence increased by more than expected, rising from an initial mid-month estimate of 78.9 up to 80.4 at month-end. This result represents a solid improvement after the index hit 74.1 in August and brings the index to its highest level since the start of the pandemic. There is still a long way to go to reach the pre-pandemic high of 101 set in February, however.

WHAT TO LOOK FORWARD TO

On Monday, the ISM Services index for September was released. This measure of service sector confidence came in above estimates, rising from 56.9 in August to 57.8 in September against calls for a decline to 56.2. This result brought the index near its post-pandemic high of 58.1 from July and helped calm concerns about wavering business confidence after the index fell by more than expected in August. Service sector confidence now sits above the pre-pandemic high of 57.3 set in February, highlighting the impressive rebound in business confidence we've seen since reopening efforts began. This is another diffusion index, where values above 50 indicate expansion. Accordingly, this strong September reading is a positive sign for service sector confidence and spending during the month, which is welcome given that the service sector accounts for the majority of economic activity.

Tuesday will see the release of the international trade report for August. The trade deficit is expected to widen from $63.6 billion in July to $66.3 billion in August. The deficit grew to its widest level in more than 12 years in July, and, if the estimates hold, the deficit would move close to the modern low of $67 billion recorded in July 2008. Previously announced data on the trade of goods during August showed the trade deficit for goods widened to its largest level on record, as a 2.8 percent rise in exports could not offset a 3.1 percent increase in imports of foreign goods. Despite the increased trade in goods during the month, overall trade volume is about 15 percent below pre-pandemic levels, indicating there's a long way to go to restore pre-pandemic global trade.

On Wednesday, the Federal Open Market Committee minutes from the Fed's September meeting will be released. This release will be interesting, due to the recent Fed policy changes that will allow inflation to rise above 2 percent for an extended period of time if the job market remains weak. Economists expect these minutes will give us a better idea of how committed the Fed is to keeping rates low to support a job market recovery if inflation rises before the return of full employment. Interestingly, two voters dissented at this meeting, one of whom argued the Fed's new policy was too supportive, while the other thought that more support should have been committed. These minutes will give us a chance to learn more about the debate surrounding the Fed's new inflation target and get an idea of what kind of overshoot the central bank would be comfortable with going forward. Other than the inflation target change, economists will be looking for mentions of future asset purchases and hints about potential changes to purchase plans.

Finally, we'll finish the week with Thursday's release of the initial jobless claims report for the week ending October 3. Economists expect to see an additional 820,000 initial filings during the week, which would be a modest improvement from the 837,000 initial claims the week before. Despite the anticipated decline, initial claims would remain significantly higher than historical norms if estimates prove to be accurate. Over the past five weeks, initial claims have largely plateaued around 850,000 per week, which is nearly four times the average from 2019. We'll continue to monitor this important weekly update until initial and continuing unemployment claims return closer to historically normal levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.54%	–0.42%	5.13%	17.23%
Nasdaq Composite	1.50%	–0.82%	24.31%	42.03%
DJIA	1.88%	–0.35%	–1.25%	8.17%
MSCI EAFE	1.53%	0.01%	–7.08%	2.83%
MSCI Emerging Markets	2.21%	0.01%	–1.15%	11.51%
Russell 2000	4.42%	2.11%	–6.76%	5.04%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.09%	6.74%	6.24%
U.S. Treasury	–0.32%	8.75%	6.90%
U.S. Mortgages	0.07%	3.63%	4.13%
Municipal Bond	–0.14%	3.24%	3.49%

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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