WEEKLY MARKET UPDATE, SEPTEMBER 14, 2020

GENERAL MARKET NEWS

- The 10-year Treasury yield opened Monday at 0.66 percent, where it closed last week. This rate also happens to be the average rate for the 10-year yield since early April, when rates first dropped from nearly 2 percent. The 2-year yield opened at 0.13 percent, slightly more than its historical low of 0.10 percent but less than its average since April of 0.17 percent. The 30-year yield opened at 1.41 percent, much more than its historic low of 0.99 percent in March and more than its average since that time of 1.36 percent. The Federal Reserve (Fed) meets this week to discuss policy. Fed futures now point to no rate hikes until sometime in 2024.

- Last week saw a continuation of the previous week's sell-off, largely driven by this year's high-flying technology and consumer discretionary names. The week began with a sharp sell-off in Tesla. The stock fell by more than 10 percent when it was not added to the S&P 500 Index. An addition to the widely utilized benchmark would have represented another way for investors to gain access to the company. We also saw a continuation in the sell-off in other FAANG companies; Apple, Microsoft, Amazon, Facebook, Alphabet, and Netflix all sold off by more than 4 percent. As a result, information technology and communication services were the two worst-performing sectors. The only positive sector was materials. Utilities and industrials were also among those that were less affected by the sell-off.

- On Thursday, the Producer Price Index for August was released. Producer prices increased by 0.3 percent during the month, which was slightly above estimates for 0.2 percent growth. Core consumer inflation, which strips out the impact of volatile food and energy prices, also came in above expectations with a 0.4 percent increase. Despite the larger-than-anticipated increase in producer inflation, producer prices were down 0.2 percent on a year-over-year basis, highlighting the headwinds to faster inflation created by the pandemic.

- Friday saw the release of the Consumer Price Index for August. Consumer inflation also came in slightly above estimates, with prices rising by 0.4 percent against forecasts for 0.3 percent growth. Core consumer inflation, which excludes energy and food prices, also rose by 0.4 percent, which was higher than estimates for a 0.2 percent increase. On a year-over-year basis, headline consumer inflation grew by 1.3 percent, while core consumer inflation showed a 1.7 percent increase. Despite the higher prices in August for consumers and producers, inflation remains well below the Fed's stated 2 percent inflation target. Given the continued weakness in the labor market, the Fed is not expected to react to modestly higher prices by tightening monetary policy this year.

WHAT TO LOOK FORWARD TO

We'll start the week with Tuesday's release of August's industrial production report. Production is expected to increase by 1 percent during the month, following a solid 3 percent increase in July. Manufacturing output, which went up by a better-than-expected 3.4 percent in July, should show a 2 percent increase in August, driven by the continued reopening of factories and a rebound in demand. If estimates hold, this report would mark four straight months of industrial production growth. Nonetheless, the overall level of production still remains well below prepandemic levels, signaling further work is needed.

On Wednesday, August's retail sales report is set to be released. Headline sales are expected to show 1 percent growth during the month, following a 1.2 percent rise in July. Core retail sales, which strip out the impact of volatile food and gas sales, are expected to go up by 1.3 percent, down from 1.9 percent growth in July. Even with the anticipated increases for headline and core sales, which would certainly be welcome, August would represent the worst month for sales since reopening efforts kicked off in May, highlighting the slowdown in the recovery during the summer. Consumer spending accounts for the lion's share of economic activity, so retail sales will be closely monitored by economists as we head into the fall.

Also on Wednesday, the National Association of Home Builders Housing Market Index for September is set to be released. This measure of home builder confidence is expected to remain flat, following a better-than-anticipated increase to 78 in August. The strong results in August brought the index to its highest level since 1998, so a flat month would be nothing to worry about. Homebuilder confidence bottomed at 30 in April, but the impressive rebound for the index since then shows the strength of the housing market in the recent recovery. The housing industry has been supported by record low mortgage rates that continued to grind lower throughout the summer, which drove additional prospective home buyers into the market.

Speaking of rates, the third major release on Wednesday will be the Federal Open Market Committee rate decision at the Fed's September meeting. The Fed cut the federal funds rate to virtually zero at the start of the pandemic, and economists do not anticipate any rate hikes this year. This meeting will be interesting, as the Fed's previous meeting occurred at the end of July, when the public health picture was worsening notably. Given the improvements seen since then on the public health front, economists will be scrutinizing Fed Chair Jerome Powell's press conference for insights into how the central bank views the evolving public health picture. Ultimately, given the continued pressure on the labor market, the Fed is expected to remain extremely supportive for the short to intermediate term.

On Thursday, we'll return to housing with the release of August's building permits and housing starts reports. Economists anticipate that these two measures of new home construction will show mixed results, following significantly-better-than expected numbers in July, when permits and starts rose by 18.8 percent and 22.6 percent, respectively. Permits are slated to increase by 3.2 percent in August, and starts should fall by 3.1 percent. Previously, the rebound in housing starts brought this segment close to prepandemic levels, so this anticipated modest decline is understandable given the strong results in July. Throughout the summer, improving homebuilder confidence supported the swift rebound in new home construction, which in turn has helped drive faster sales growth in regions with constrained supply.

Thursday will also see the release of the weekly initial jobless claims report for the week ending September 12. Economists expect to see 850,000 initial claims filed during the week, which would represent an improvement from the 884,000 initial claims filed the week before. Still, over the past few weeks, initial claims have plateaued, which is a concerning development given the high level of claims on a historical basis. For comparison, during the 2008 financial crisis, initial claims peaked at 665,000 per week, but they have now spent more than five months above that level. Continuing unemployment claims are also historically high, giving us another cause for concern. As the labor market continues to face significant stress, these weekly releases will be closely monitored by economists for the timely picture they provide as to the health of the job market.

Finally, we'll finish the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for September. This early look at consumer confidence is expected to show a modest improvement from 74.1 in August to 75 in September. Consumer confidence has been volatile throughout the summer, with an initial improvement in June offset by a drop in July and a modest recovery in August. If estimates hold, this report would mark two straight months with improved confidence. Nonetheless, the index would still fall below the post-pandemic high of 78.1 it hit in June and well below the prepandemic high of 101 set in February. Improving consumer confidence has historically supported faster consumer spending growth, so any increase in the index would be welcome, but the low overall confidence levels are cause for concern.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.49%	–4.50%	4.80%	13.15%
Nasdaq Composite	–4.06%	–7.81%	21.76%	33.72%
DJIA	–1.61%	–2.61%	–1.34%	4.26%
MSCI EAFE	1.45%	–0.62%	–5.21%	1.92%
MSCI Emerging Markets	–0.67%	–0.84%	–0.39%	9.22%
Russell 2000	–2.45%	–4.10%	–9.40%	–3.56%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.25%	7.03%	8.03%
U.S. Treasury	0.40%	9.00%	9.06%
U.S. Mortgages	–0.01%	3.69%	4.79%
Municipal Bond	0.05%	3.28%	4.04%

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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