WEEKLY MARKET UPDATE, SEPTEMBER 21, 2020

GENERAL MARKET NEWS

• Rates were relatively flat last week, with the 10-year Treasury yield staying between 0.65 percent and 0.70 percent and opening on the lower part of that range on Monday morning. The 2-year opened at 0.15 percent Monday but dropped to 0.13 percent in early trading. The 30-year traded between 1.40 percent and 1.45 percent all week, opening at 1.39 percent Monday. The steepest part of the curve remains from the 10-year to the 20-year, where investors can capture more than 50 basis points of yield.

• Last week saw the three major U.S. large-cap indices flat to slightly lower as the FAAMG (Facebook, Amazon, Apple, Microsoft, and Google) companies continued their sell-off. In addition to shifting away from mega-cap technology, investors also sold out of communications services and consumer discretionary. Positive news on coronavirus vaccine trials from Pfizer, BioNTech, AstraZeneca, and Moderna supported the shift toward names that could potentially rebound from a return to normal. Pfizer, BioNTech, and Moderna said their trial results could be known as early as late October. As a result, we saw investors move into small-cap stocks and sectors, such as energy, industrials, and materials, that would benefit from a return to global economic growth.

• Last Wednesday, we saw the release of the August retail sales report. Sales disappointed during the month, rising by 0.6 percent against calls for a 1 percent increase. July's retail sales growth was also revised down from 1.2 percent to 0.9 percent. Core retail sales, which strip out the impact of volatile food and gas sales, increased by 0.7 percent against calls for 0.9 percent growth. Although the slowing growth in sales in August was disappointing, the overall level of retail sales now sits nearly 2 percent higher than prepandemic levels. Given this rebound and the slowing tailwind from lowered government stimulus, the slowdown in sales is understandable.

• Also on Wednesday, the National Association of Home Builders Housing Market Index for September was released. Homebuilder sentiment soared past expectations, rising to a record high of 83, against forecasts to remain flat at 78. This better-than-expected result was driven by a surge in prospective home buyer foot traffic during the month, with the subindex that measures foot traffic rising from 64 to 73. This increase in prospective home buyers has been driven in large part by low mortgage rates, which remain near all-time lows. Since the index bottomed out at 30, we've seen an impressive rebound in the homebuilder confidence sector as the economy has reopened.

• The third major release on Wednesday was the Federal Open Market Committee (FOMC) rate decision. As expected, the Federal Reserve (Fed) voted to keep the federal funds rate unchanged at virtually zero during its September meeting. The forecasts released for this meeting showed the vast majority of Fed officials do not expect to raise rates until 2023 at the earliest, driven by concerns about low inflation and the significant stress facing the job market. Fed Chair Jerome Powell used his post-meeting news conference to advocate for additional fiscal stimulus from the federal government, as the Fed remains concerned about the headwinds created by the pandemic.

• On Thursday, we returned to housing with the release of August's building permits and housing starts reports. Both of these measures of new home construction disappointed, with starts falling by 5.1 percent against calls for a 0.6 percent decline, while permits dropped by 0.9 percent against forecasts for a 2 percent rise. Both permits and starts rose by 17.9 percent in July, so this decline in August is notable but not concerning—especially when accounting for the slowdown in construction in the South caused by tropical storms during the month. The pace of new home construction has improved markedly since hitting a pandemic low in April, driven by rising homebuilder sentiment and low mortgage rates.

• We finished 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 came in better than expected, rising from 74.1 in August to 78.9 in September, against forecasts for a more moderate rise to 75. This marks the second consecutive month with improving confidence, following a decline in July caused by rising case counts. This brought the index to its highest level since the pandemic hit, which is encouraging because improving confidence typically supports faster spending growth. Although the improvement in September was certainly welcome, the index still sits significantly below the prepandemic high of 101 it hit in February, indicating there remains a long way to go to return to those confidence levels.

WHAT TO LOOK FORWARD TO

On Tuesday, August's existing home sales report will be released. Sales of existing homes are expected to rise by 2.4 percent, following a 24.7 percent surge in July. If estimates hold, existing home sales would be up more than 10 percent on a year-over-year basis compared with last August. The pace of existing home sales rebounded sharply once reopening efforts started, with sales in July reaching their highest level since 2006. This expected improvement would be another sign the housing market remains strong, driven by continued low mortgage rates.

On Thursday, August's new home sales report will be released. New home sales are expected to fall by 1.2 percent during the month, following a 13.9 percent increase in July. The anticipated modest decline is not a major concern because of July's strong showing. As was the case with existing home sales, new home sales surged past prepandemic levels once reopening efforts began, highlighting the impressive strength of the housing market over the summer.

Also on Thursday, the weekly initial jobless claims report for the week ending September 19 will be released. Economists expect to see an additional 840,000 initial filers during the week, which would be an improvement from the 860,000 the week before. Despite the anticipated decline, initial claims would nonetheless come in significantly higher than normal if estimates hold. Over the past few weeks, initial unemployment claims have plateaued—a concerning development given the high overall level of claims. We'll continue to monitor this weekly update until the level of claims returns closer to historically normal levels.

We'll finish the week with Friday's release of the preliminary durable goods orders report for August. Durable goods orders are expected to rise by 1.4 percent during the month, following an 11.4 percent surge in July. Much of the increase in July was due to volatile transportation orders, as core durable goods orders, which strip out transportation orders, rose by only 2.6 percent. Core orders are expected to go up by 1 percent in August, providing a good sign for continued business investment. Durable goods orders have almost recovered to prepandemic levels, and further improvements in August would be a signal that the recovery for business spending has largely been V-shaped.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.60%	–5.08%	4.17%	12.52%
Nasdaq Composite	–0.53%	–8.30%	21.11%	33.19%
DJIA	–0.01%	–2.61%	–1.35%	4.54%
MSCI EAFE	0.79%	0.16%	–4.46%	2.26%
MSCI Emerging Markets	1.58%	0.74%	1.19%	11.51%
Russell 2000	2.68%	–1.53%	–6.98%	–0.15%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.09%	6.93%	7.70%
U.S. Treasury	–0.17%	8.82%	8.69%
U.S. Mortgages	–0.19%	3.49%	4.48%
Municipal Bond	0.08%	3.37%	4.51%

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.

Authored by the Investment Research team at Commonwealth Financial Network.