WEEKLY MARKET UPDATE, SEPTEMBER 28, 2020

GENERAL MARKET NEWS

- The 10-year Treasury yield (along with the rest of the Treasury curve) stayed within the range it's been in for the past couple of weeks. It opened at 0.67 percent on Monday after spending most of last week at exactly that level. The 2-year opened at 0.13 percent and the 30-year at 1.42 percent, which is where they spent most of last week. As we enter the last quarter of the year, with an election in a little more than a month, many investors may be adopting a wait-and-see approach.

- Last week, the S&P 500 posted its fourth consecutive week of losses. Although the sell-off in the S&P 500 and Dow Jones Industrial Average continued, the Nasdaq Composite moved higher as consumer discretionary names such as Amazon and technology companies such as Apple, Microsoft, and Nvidia helped buoy the index. The cyclical sectors struggled as increasing case counts in France and Spain led to stricter mobility restrictions across Europe. Those hardest hit were energy, financials, and materials because lower mobility generates concerns over demand for oil and economic activity.

- On Tuesday, August's existing home sales report was released. Sales of existing homes rose by 2.4 percent, in line with expectations. On a year-over-year basis, sales are up by more than 10 percent. This solid result brings the pace of existing home sales to its highest level since 2006, highlighting an impressive rebound for the housing market since reopening efforts began. The housing market has been buoyed by record-low mortgage rates that have driven additional prospective homebuyers into the market.

- On Thursday, August's new home sales report was released. New home sales beat expectations, rising by 4.8 percent during the month against calls for a 1.2 percent decline. July's sale growth was also revised up to 14.7 percent. As was the case with existing home sales, the continued improvement in August brought the pace of new home sales to its highest level since 2006. Sales were strongest in the South, where purchases of new homes increased by 13.4 percent. Housing has been one of the bright spots in the recent economic recovery, and these reports showcase the impressive rebound in home buyer demand we've seen over the past few months.

- We finished the week with Friday's release of the preliminary durable goods orders report for August. Durable goods orders disappointed during the month, rising by 0.4 percent against forecasts for a 1.5 percent increase. This follows an upwardly revised 11.7 percent increase in July. Core durable goods orders, which strip out the impact of volatile transportation orders, also rose by 0.4 percent. Core durable goods orders are often viewed as a proxy for business investment. So, the continued improvement in August, following a 3.2 percent rise in July, is a positive sign for business spending, which has rebounded well from shutdowns earlier in the year.

WHAT TO LOOK FORWARD TO

On Tuesday, the Conference Board Consumer Confidence Index for September will be released. Consumer confidence is expected to improve, with economists forecasting an increase from 84.8 in August to 90 in September. Although this increase would be a positive development if estimates hold, it would still leave the index below the post-pandemic high of 98.3 it hit in June. August marked a six-year low for the index, as a weak jobs market and expiring federal stimulus affected confidence. Historically, improving consumer confidence levels support faster spending growth, so weak overall confidence levels are concerning and will be closely monitored over the upcoming months.

On Thursday, August's personal income and personal spending reports are set to be released. Spending is expected to grow by 0.7 percent during the month, following a 1.9 percent increase in July. Personal spending has improved notably since reopening efforts began; however, the pace of improvement has cooled as the tailwinds from reopening and extra government stimulus have faded. Personal income for August is expected to fall by 2.1 percent, due primarily to the expiration of the extra $600 weekly jobless payments at the end of July. Personal income has been very volatile over the past few months due to changes in government policy. If estimates hold, this report would be another indication the pace of the economic recovery has slowed.

Thursday will also see the release of the weekly initial jobless claims report for the week ending September 26. Economists expect to see an additional 850,000 initial unemployment claims filed during the week, which would be an improvement from the 870,000 initial claims recorded the week before. Despite the anticipated decline, initial claims would remain significantly higher than historical norms if estimates prove accurate. Over the past month, initial claims have plateaued, which is concerning given the overall high level of initial claims being filed each week. We'll continue to monitor this weekly update until the level of claims returns closer to historically normal levels.

The third release on Thursday will be the Institute for Supply Management (ISM) Manufacturing index for September. This gauge of manufacturing confidence is expected to remain unchanged at 56. In August, the index rose to its highest level since 2018, so a similar result in September would be encouraging. This is a diffusion index, where values above 50 indicate expansion, so this report would be strong if estimates hold. A solid rebound in the demand for goods has caused manufacturing confidence and output to rise notably since reopening efforts began. So, a positive result here would be another sign manufacturing is continuing to do well as we enter the fall, despite the slowdown in the pace of the overall economic recovery.

On Friday, September's employment report will be released. Economists expect to see 900,000 jobs added during the month, following a better-than-expected 1.32 million additional jobs in August. The unemployment rate is expected to fall from 8.4 percent to 8.2 percent. Although such improvements would certainly be welcome, it's important to look at this report in context, given that we lost more than 22 million jobs between March and April. We did see a partial recovery for the job market once reopening efforts began, but the pace of improvement has slowed, which is concerning given the notable gap in total employment compared with pre-pandemic levels. Ultimately, a full economic recovery will require significant improvement on the employment front, so these monthly releases will continue to be closely monitored.

We'll finish the week with Friday's release of the second and final estimate of the University of Michigan consumer sentiment survey for September. Economists expect to see the index remain unchanged, after the preliminary report released earlier in the month showed a better-than-expected increase to 78.9. If estimates hold, this release would represent a modest improvement from the August result of 74.1 and would mark the highest level for the index since the pandemic hit. As is the case with the Conference Board report, improving confidence would certainly be a welcome development. Nonetheless, the index would sit significantly below the year's pre-pandemic high of 101 recorded in February, indicating consumers remain cautious.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.61%	–5.66%	3.53%	12.91%
Nasdaq Composite	1.13%	–7.27%	22.48%	37.22%
DJIA	–1.75%	–4.32%	–3.07%	3.49%
MSCI EAFE	–4.21%	–4.06%	–8.48%	–1.12%
MSCI Emerging Markets	–4.42%	–3.72%	–3.29%	7.31%
Russell 2000	–4.01%	–5.48%	–10.71%	–2.41%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.09%	6.83%	7.15%
U.S. Treasury	0.26%	9.09%	8.35%
U.S. Mortgages	0.06%	3.55%	4.44%
Municipal Bond	0.02%	3.39%	4.19%

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.