WEEKLY MARKET UPDATE, SEPTEMBER 8, 2020

GENERAL MARKET NEWS

- There was heightened volatility in the rates market last week—the 10-year Treasury yield swung from 0.75 percent to 0.60 percent and then back to 0.72 percent, opening at 0.68 percent Monday. The steepest part of the curve is currently the 10- to 20-year yield, where rates jumped from 0.68 percent to 1.20 percent. The 30-year yield opened at 1.41 percent, and the 2-year yield opened at 0.13 percent. The Federal Reserve (Fed) has made it clear it is willing to provide support with as much liquidity as needed. It meets again next week to discuss policy, which will be the second-to-last scheduled meeting of the year.

- Last week saw markets take a breather from their recent rally. The market decline was led by the technology-oriented Nasdaq Composite. A number of large tech names sold off, including Microsoft, Facebook, Alphabet, Amazon, and Apple. Tesla also sold off 19 percent from the open on Tuesday through the close on Thursday. The sell-off was largely caused by overbought conditions, driven by concentration in the FAANG companies in recent months. Sectors that fared better on the week were materials, utilities, financials, and consumer staples.

- On Tuesday, the Institute for Supply Management (ISM) Manufacturing index for August was released. This measure of manufacturer confidence rose from 54.2 in July to 56 in August, against forecasts for a more modest increase to 54.8. This better-than-expected result brought the index to its highest level since the end of 2018, highlighting an impressive rebound in manufacturer sentiment once reopening efforts kicked off in May. This is a diffusion index, where values above 50 indicate expansion, so the continued improvement for the index in August is a good sign for increased business spending in the third quarter.

- Thursday saw the release of the ISM Services index for August. Service sector confidence fell by a little more than expected during the month—from 58.1 in July to 56.9 in August—against calls for a drop to 57. As has been the case with manufacturing confidence, service sector confidence has experienced a strong rebound since reopening efforts began, so this moderate decline in August is nothing to worry about for the time being. Service sector confidence hit a prepandemic high of 57.3 in February, so August's slightly disappointing result still leaves the index in line with prepandemic levels. This is another diffusion index, where values above 50 indicate expansion, so the strong rebound in business confidence that we've seen since May has been encouraging and should support higher business spending throughout the month.

• Finally, we finished the week with Friday's release of the August employment report. About 1.37 million jobs were added during the month, which was slightly above economist estimates for 1.35 million. This follows a downwardly revised 1.73 million jobs in July. The unemployment rate declined by more than expected during the month, falling from 10.2 percent in July to 8.4 percent in August, against forecasts for 9.8 percent. While these better-than-expected results were certainly welcome, it's important to view the report in context, as we lost more than 22 million jobs between March and April alone. Despite the progress we've made in getting people back to work, we've still seen only about 10.6 million jobs come back between May and August, leaving a notable gap in total employment compared with prepandemic levels. Ultimately, a full economic recovery will require significant improvements on the employment front, so these monthly releases will continue to be closely monitored.

WHAT TO LOOK FORWARD TO

On Thursday, the Producer Price Index for August is set to be released. Economists expect to see producer inflation rise by 0.2 percent during the month, following a stronger-than-expected 0.6 percent increase in July. Core consumer inflation, which strips out the impact of volatile food and energy prices, is also expected to rise by 0.2 percent during the month. Despite the anticipated increase, producer prices should show a 0.4 percent decline on a year-over-year basis, and core producer inflation will likely increase by a modest 0.3 percent annually. These results would highlight the headwinds to faster inflation and the subsequent hit to demand caused by the pandemic.

Thursday will also see the release of the initial jobless claims report for the week ending September 5. Economists expect to see 830,000 initial claims filed during the week, which would be an improvement from the 881,000 initial claims made the week before. Throughout most of August, initial claims bounced around the level of 1 million per week, before setting a new pandemic low during the last week of the month. Accordingly, continued improvement in the first week in September would be an encouraging sign. Continuing claims are also expected to show modest improvement but will remain elevated on a historical basis. We'll continue to monitor these weekly reports until we see initial and continuing claims return to more normal levels.

Friday will see the release of the Consumer Price Index for August. Consumer inflation is expected to moderate in August, with headline inflation set to rise by 0.3 percent following a 0.6 percent increase in July. Core consumer inflation, which excludes energy and food prices, is expected to show a more moderate 0.2 percent increase during August. On a year-over-year basis, headline consumer inflation is set to rise by 1.2 percent, while core consumer inflation should show a 1.6 percent increase. The modest increase in consumer prices is expected to be widespread, with prices rebounding for categories severely affected by the pandemic, such as clothing and car insurance. If estimates hold, consumer inflation would remain well below the Fed's stated 2 percent target. Given the continued weakness in the labor market, the Fed is not expected to react to modestly higher prices by tightening monetary policy any time soon.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.27%	–2.06%	7.48%	17.39%
Nasdaq Composite	–3.25%	–3.91%	26.91%	40.75%
DJIA	–1.73%	–1.01%	0.27%	7.79%
MSCI EAFE	–2.07%	–2.04%	–6.56%	2.17%
MSCI Emerging Markets	–1.95%	–0.17%	0.28%	12.14%
Russell 2000	–2.70%	–1.69%	–7.13%	3.12%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.15%	6.76%	6.70%
U.S. Treasury	0.12%	8.57%	7.20%
U.S. Mortgages	–0.03%	3.70%	4.54%
Municipal Bond	–0.06%	3.23%	3.33%

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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