



# WEEKLY MARKET UPDATE, JUNE 8, 2020

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## GENERAL MARKET NEWS

· After better-than-expected employment numbers were released last week, rates moved significantly higher, with the 10-year Treasury yield as high as 0.96 percent late Friday. The 30-year is trading at 1.69 percent, and the 2-year is at 0.21 percent, as of Monday morning. Although the unemployment rate drop was good news, the sell-off in rates was likely overdone; we should see more volatility in the weeks and months ahead.

· Global equities rallied for the third consecutive week. Value continued its recent outperformance of growth stocks, as the U.S. economy picked up 2.5 million jobs versus an expected loss of 7.5 million. In addition, auto sales were stronger than expected in May, showing the economy may be rebounding from late-April lows for economic activity. International stocks continued their rally over U.S. stocks, as the European Central Bank pledged an additional 600 billion euros to its pandemic emergency purchase program. The week's top-performing sectors were energy, financials, industrials, materials, and REITs, all of which had been hurt by lockdowns. The worst-performing sectors included health care, consumer staples, and utilities.

· Last week started with the release of the Institute for Supply Management (ISM) Manufacturing index for May. This measure of manufacturer confidence increased modestly from 41.5 in April to 43.1 in May, against expectations for a larger increase to 43.8. Although this increase was a positive development, this is a diffusion index (values less than 50 indicate contraction), so it remains at concerning levels. The manufacturing industry was hit hard in April by factory shutdowns and a steep drop in global demand due to the COVID-19 pandemic, but efforts to reopen factories in May helped modestly bolster confidence during the month. While factory openings are likely to be a tailwind for manufacturer confidence in the short term, the drop in global demand will likely linger for some time, serving as a headwind for a swift increase in manufacturer confidence.

· On Wednesday, the ISM Nonmanufacturing index for May was released. This measure of service sector confidence also increased modestly, rising from 41.8 in April to 45.4 in May, against expectations for a smaller increase to 44.4. This better-than-expected result was welcome; however, this is another diffusion index, so service sector confidence remained well below levels needed to support a swift economic recovery. The stabilization of business confidence in May

was a positive development, but we still have a long way to go before we approach normal levels of confidence that could lead to increased business spending and help stimulate overall economic growth.

· We finished the week Friday with the release of May's employment report, which came in far above economist estimates. About 2.5 million jobs were added during the month, against expectations for a loss of 7.5 million jobs. This caused the unemployment rate to drop to 13.3 percent from 14.7 percent in April, significantly lower than economist estimates for a rise to 19 percent. (A later report from the Bureau of Labor Statistics suggested that a "misclassification error" may have resulted in a lower unemployment rate.) Although these results were certainly encouraging, they should be viewed in context; we lost more than 20 million jobs in April, and the current unemployment rate is the second-highest monthly level since World War II. It will almost certainly be a long road back to a full economic recovery, but this report showed we are moving in the right direction.

## WHAT TO LOOK FORWARD TO

We started the week with Monday's release percent in April, consumer prices are expected to remain flat during the month. This would bring the pace of year-over-year consumer inflation to a modest 0.2 percent, down from 0.3 percent in April. Core inflation, which strips out the impact of volatile food and energy prices, is also expected to remain flat for the month. As a result, year-over-year core inflation should come in at 1.3 percent, down from 1.4 percent the previous month. The April inflation reports showed the massive deflationary pressure caused by the coronavirus pandemic. Looking forward, this headwind is expected to remain until economic activity picks up notably.

Also on Wednesday, the Federal Open Market Committee will release its rate decision for the Federal Reserve's (Fed's) June meeting. Economists do not expect any changes to the federal funds rate, which was lowered to effectively zero in March to stimulate the economy. Members of the Fed have made it clear rates will remain low until we see a sustained economic recovery. Economists will focus on the language in the news release, as well as Fed chairman Jerome Powell's news conference, for hints of future Fed actions. Although no major surprises are expected from this release and the associated news conference, they will offer a timely update on the Fed's view of the economy and markets.

On Thursday, May's Producer Price Index will be released. Producer prices are expected to increase by a modest 0.1 percent during the month, following a 1.3 percent decline in April. On a year-over-year basis, deflation for producers would decline by 1.2 percent. Core consumer prices, which strip out gas and food costs, are expected to fall by 0.1 percent, bringing year-over-year core consumer inflation to a four-year low of 0.5 percent. As was the case with consumer inflation, economists are not anticipating a swift increase in producer inflation, given the headwinds created by the pandemic.

Thursday will also see the weekly initial jobless claims report for the week ending June 6. Economists are forecasting 1.55 million initial claims were filed during the week. If estimates hold, the report would mark the 10th consecutive week with declining initial claims. Although this positive trend is encouraging, claims remain well above historical averages. So, although the worst may be behind us, the job market still faces significant stress. We will continue to monitor this important weekly release, as well as the continuing claims report, until we see weekly claims return to normal levels.

On Friday, we'll finish the week with the release of the preliminary estimate of June's University of Michigan consumer sentiment survey. This measure of consumer confidence is expected to increase from 72.3 in May to 75 in June. Strong equity market returns over the past two months and the improving employment situation are expected to be drivers of this improvement. Still, though an increase would be positive, it would leave the index well below the recent high-water mark of 101 set in February, highlighting the devastating impact of anti-coronavirus measures. Increasing confidence levels have typically supported faster spending growth, so a continued rebound in consumer confidence would be positive, given the importance of consumer spending to the overall economy.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	4.96%	4.96%	-0.26%	14.57%
Nasdaq Composite	3.44%	3.44%	9.87%	30.21%
DJIA	6.85%	6.85%	-3.90%	8.03%
MSCI EAFE	7.07%	7.07%	-8.20%	1.96%
MSCI Emerging Markets	7.87%	7.87%	-9.34%	2.56%
Russell 2000	8.13%	8.13%	-9.11%	1.75%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.49%	4.95%	8.78%
U.S. Treasury	-1.52%	6.96%	9.60%
U.S. Mortgages	-0.08%	3.51%	6.35%
Municipal Bond	0.00%	1.25%	3.91%

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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