



WEEKLY MARKET UPDATE, JUNE 22, 2020

GENERAL MARKET NEWS

- Treasury rates were largely range bound last week, as Federal Reserve (Fed) Chairman Jerome Powell's midweek testimony to Congress did not contain major market-moving news. The 10-year Treasury yield started the week at 0.70 percent, slightly higher than last week's opening yield of 0.66 percent. The story was the same on the longer end of the curve, with the 30-year opening at 1.44 percent, compared with 1.40 percent the week before.
- Last week, global equities rebounded from the previous week's pullback as indices posted gains across the board. The rebound, led by the Nasdaq, favored growth and momentum companies. The Fed's choice to purchase individual corporate bonds and to kick off its Main Street Lending Program were among the reasons for the move higher. In addition, there is speculation that a future infrastructure stimulus plan could be proposed. Sectors that fared best during the week included health care, technology, consumer staples, and consumer discretionary. Underperforming sectors were bond proxy sectors in utilities, energy, and REITs.
- On Tuesday, May's retail sales report was released. Sales blew away expectations, increasing by 17.7 percent against forecasts for an 8.4 percent increase. This rebound shows consumers were more than ready to get out and spend as states started reopening. Car sales were a highlight during the month, increasing by more than 40 percent from April; however, even core retail sales, which strip out the impact of auto and gas sales, rose by a better-than-expected 12.4 percent. All things considered, this was a positive report that indicates the economic recovery may be swifter than originally anticipated.
- Also released Tuesday was the National Association of Home Builders Housing Market Index for June. This measure of home builder confidence rose from 37 in May to 58 in June, against expectations for a more modest increase to 45. This was one of the largest single-month increases on record, as home builders cited significantly higher prospective home buyer interest during the month. Although there remains a long way to go to return to the recent high of 78, set in December, this better-than-expected report is a good sign for future home construction as we enter the summer months, with state economies largely opened up to renewed construction work.
- Speaking of new home construction, May's building permits and housing starts reports were released Wednesday. Here, the news was a bit disappointing, as both measures

of new home construction came in below expectations. Starts rose by 4.3 percent, against forecasts for a 23.5 percent increase. Permits rose by a more encouraging 14.4 percent, against calls for a 16.8 percent increase. Although the increased pace of new home construction in May was welcome, it followed April declines of more than 26 and 21 percent for starts and permits, respectively, so there remains a long way to go before returning to pre-pandemic activity levels.

WHAT TO LOOK FORWARD TO

On Monday, May's existing home sales report was released. Sales fell by 9.7 percent during the month, against expectations for a 5.6 percent decline. Following a 17.8 percent decline in April, this disappointing result brought the annualized pace of existing home sales down to a nine-year low of 3.91 million. The declines were geographically widespread, with sales down by double digits on a year-over-year basis across all four major regions of the country. Before the pandemic hit, existing home sales showed solid growth in 2019 and the first two months of 2020, peaking at an annualized rate of 5.76 million in February. With mortgage rates near a three-year low and consumer confidence stabilizing in June, we can hope home sales may rebound in the upcoming months. As May's disappointing results showed, however, the disruption to the housing market caused by the pandemic was severe. It's likely the pace of home sales will take some time to recover to pre-pandemic levels.

We'll get another look at the housing market with Tuesday's release of the May new home sales report. New home sales are expected to rise by 1.1 percent after posting a surprise 0.6 percent increase in April. New home sales are a smaller and, often, more volatile portion of the housing market compared with existing

home sales, but the anticipated increase would still be a positive sign for the overall market. Once again, the combination of low rates and improving consumer demand is expected to serve as a tailwind for new home sales as we head into the summer. One key area to monitor will be the pace of new home construction, as the slowdown caused by the pandemic may serve as a temporary headwind to new home sales, especially in supply-constrained markets. Nonetheless, the better-than-expected home builder confidence figures should support faster new home construction, which, in turn, would likely boost new home sales.

On Thursday, the preliminary durable goods orders report for May will be released. Durable goods orders are expected to increase by 10.5 percent, following a 17.7 percent decline in April. Much of the anticipated increase can be attributed to transportation orders, which can be especially volatile on a month-to-month basis. Core durable goods orders, which strip out the impact of transportation orders, are set to increase by 2.5 percent during the month, following a 7.7 percent decline in April. Core durable goods orders are often seen as a proxy for business investment, so while this anticipated increase would be a positive development, it would indicate business spending will likely face a longer path back to pre-pandemic levels compared with consumer spending, which has already showed signs of a swifter rebound.

Thursday will also see the release of the weekly initial jobless claims estimate for the week ending June 20. Economists expect initial claims to fall for the 12th consecutive week, down to 1.3 million from just more than 1.5 million the previous week. Although continued declines for initial claims would be welcome, the pace of reduction has slowed over the past few weeks, indicating the job market still faces significant stress despite reopening efforts. We

will continue to monitor these weekly releases until we see claims returning to historically normal levels.

On Friday, May's personal income and personal spending reports will be released. Incomes are expected to fall by 6 percent, following a surprising 10.5 percent increase in April. Incomes were boosted by onetime CARES Act payments in April, which are not expected to have a meaningful effect in May. Spending is set to increase by 8.6 percent, partially offsetting a 13.6 percent decline in April that was the worst monthly decline for personal spending since records began being kept in 1959. Once again, though the anticipated increase in spending would be a welcome development, it will likely take some time to recover from the damage to consumer spending caused by the pandemic, even if the pace of recovery may be faster than originally anticipated.

Finally, we'll finish the week with Friday's release of the second and final estimate of the University of Michigan consumer sentiment index for June. Economists expect it to remain unchanged from the midmonth preliminary estimate of 78.9, up from 72.3 in May and higher than initial estimates of 75 in June. The much-better-than-expected May jobs report and equity market rebound likely contributed to this better-than-expected preliminary result. Improving consumer sentiment has historically supported faster consumer spending growth, so a continued rebound for this index would bode well for June's spending figures. Although the anticipated increase would be welcome, confidence would still sit well below its recent high of 101 in February, so there remains much work to be done to fully restore consumer sentiment.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.88%	1.88%	-3.19%	6.96%
Nasdaq Composite	3.74%	4.87%	11.39%	24.83%
DJIA	1.07%	2.05%	-8.22%	-0.88%
MSCI EAFE	2.05%	4.65%	-10.27%	-3.72%
MSCI Emerging Markets	1.53%	7.86%	-9.36%	-2.61%
Russell 2000	2.25%	1.85%	-14.40%	-7.90%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.20%	5.92%	8.65%
U.S. Treasury	-0.04%	8.31%	10.06%
U.S. Mortgages	-0.25%	3.42%	5.56%
Municipal Bond	0.06%	1.88%	4.31%

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.

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