



# WEEKLY MARKET UPDATE, OCTOBER 12, 2020

## GENERAL MARKET NEWS

• There was a pickup in yields last week in the wake of stimulus talks. The 10-year Treasury yield stood at 0.70 percent 10 days ago before spiking to 0.81 percent on Wednesday and dipping to 0.79 percent on Friday.

(The 30-year Treasury yield rose 10 basis points last week.) The spike on Wednesday was supported by Federal Reserve (Fed) Chairman Jerome Powell, who said the economy has a “long way to go” and there is “low risk of overdoing it.” The 10-year’s minor tick down came as President Trump closed the gap on a potential stimulus deal with Congress.

• A risk-on rally developed last week as enthusiasm grew behind a stimulus deal. The small-cap Russell 2000 led the way for the week. The Nasdaq was the top-performing domestic large-cap index, followed by the S&P 500 and the Dow Jones. Materials, energy, utilities, technology, and health care were among the top performing sectors. Technology benefited from a stronger-than-expected earnings preannouncement from NXP Semiconductors (NXPI) and news that AMD had made an offer to acquire Xilinx (XLNX) for \$30 billion. Health care was supported by names such as Johnson & Johnson, which agreed to provide the EU with 400 million

doses of its coronavirus vaccine, currently in stage three testing. Thermo Fisher Scientific (TMO) saw its stock rise over news of an expansion of COVID-19 testing operations and laboratory plastics production.

Underperforming sectors included real estate investment trusts, communication services, and consumer staples.

• On Monday, the Institute for Supply Management (ISM) Services index for September was released. This measure of service sector confidence rose from 56.9 in August to 57.8, against calls for a decline to 56.2. This better-than-expected result brought the index near its post-pandemic high of 58.1 from July, helping calm concerns about wavering business confidence after the index fell by more than expected in August. Service sector confidence now sits above the pre-pandemic high of 57.3 set in February, highlighting the impressive rebound in business confidence we’ve seen since reopening efforts began. This is a diffusion index, where values above 50 indicate expansion, so this is a positive sign for service sector confidence and spending during September.

## WHAT TO LOOK FORWARD TO

On Tuesday, the Consumer Price Index for September will be released. Consumer prices

are expected to rise by 0.2 percent during the month, down from a 0.4 percent increase in August. On a year-over-year basis, consumer inflation is slated to increase by 1.4 percent, up modestly from the 1.3 percent annual inflation rate we saw in August. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to rise by 0.2 percent during the month and 1.7 percent year-over-year. Inflationary pressure picked up during the summer as low inventories and rising demand led to modest increases in consumer prices; nonetheless, the deflationary pressures created by the lockdown measures are expected to keep inflation constrained for the time being.

Speaking of inflation, the Producer Price Index for September will be released Wednesday. This measure of producer inflation is expected to show a modest 0.2 percent gain in producer prices during the month, down from a 0.3 percent increase in August. On a year-over-year basis, producer prices are expected to rise by 0.2 percent. Core consumer prices, which strip out volatile food and energy prices, are expected to go up by 0.2 percent during the month. On an annual basis, core producer inflation is expected to increase by 0.9 percent, compared with a 0.6 percent increase in August. As was the case with consumer inflation, the deflationary pressure created by anti-coronavirus measures earlier in the year is expected to keep producer inflation moderate for the time being. Despite the pickup in inflation we've seen since reopening efforts kicked off, inflation remains well below the Fed's stated 2 percent target. Accordingly, the central bank is not expected to react to rising inflation by raising rates until the job market improves considerably.

On Thursday, the initial jobless claims report for the week ending October 10 will be released. Economists expect to see an additional 823,000 initial claims filed during the week. If estimates hold, initial claims will

have plateaued around 850,000 per week over the past six weeks, a pace roughly four times the average for weekly initial claims in 2019. The continued high number of layoffs is a concerning sign that the labor market still faces significant headwinds well after lockdowns ended. Given the current stress on the job market, this important weekly release will continue to be monitored as a gauge of the health of the labor market.

Friday will see the release of September's retail sales report. Sales are expected to rise by 0.8 percent during the month, taking a step up from August's 0.6 percent increase. Part of this anticipated increase is due to the more than 7 percent rise in car sales in September. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to show a more modest 0.5 percent increase during the month, down from a 0.7 percent gain in August. The pace of retail sales growth has slowed notably since the summer, when reopening efforts and heightened government stimulus supported faster growth. Still, the overall level of sales has rebounded above pre-pandemic levels. Looking forward, we are unlikely to see double-digit gains in sales. Nonetheless, continued growth at the forecasted level would be a positive sign that consumers remain willing and able to spend despite expired government stimulus payments.

September's industrial production report will also be released on Friday. Production is expected to increase by 0.6 percent during the month, up from a 0.4 percent gain in August. Manufacturing production is expected to rise by 0.7 percent during the month, marking a slight decline from August's 1 percent growth. The pace of industrial production growth has slowed since the summer, when reopening efforts provided a tailwind for producers. Despite the anticipated increase during the month, industrial production remains well below pre-pandemic levels, highlighting the

divergent pace of the economic recovery for domestic production compared with consumption since lockdowns ended.

We'll finish the week with Friday's release of the preliminary estimate for the University of Michigan consumer sentiment survey. The index is expected to show a modest rise from 80.4 in September to 80.5 in October. Consumer confidence rebounded in September to its highest level since the pandemic began, and any further improvement in October would be another step in the right direction. Increased consumer confidence typically leads to faster consumer spending growth, so this report has been widely followed throughout the pandemic. Despite the increase in confidence in September and the anticipated rise in October, the index sits well below the high of 101 it set in February. A lot of work remains to get consumer confidence back to pre-pandemic levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	3.89%	3.46%	9.22%	20.61%
Nasdaq Composite	4.57%	3.71%	29.99%	47.05%
DJIA	3.31%	2.95%	2.02%	10.49%
MSCI EAFE	2.98%	2.99%	-4.31%	4.95%
MSCI Emerging Markets	3.78%	3.79%	2.59%	15.18%
Russell 2000	6.40%	8.64%	-0.80%	11.82%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.17%	6.55%	6.66%
U.S. Treasury	-0.50%	8.20%	7.17%
U.S. Mortgages	-0.05%	3.58%	4.20%
Municipal Bond	-0.33%	2.90%	3.07%

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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