



WEEKLY MARKET UPDATE, JUNE 29, 2020

GENERAL MARKET NEWS

• The 10-year Treasury yield dropped to 0.64 percent last Friday, its lowest point since mid-May, and opened at that level early Monday. The 30-year opened at 1.37 percent and the 2-year at 0.16 percent. Uncertainty with the direction of the economy and the coronavirus pandemic is making some investors cautious. On Wednesday, we'll receive the minutes from the Federal Reserve's (Fed's) June 10th meeting (more on that below).

• Global equities fell last week, led down by the Dow Jones Industrial Average and S&P 500. The rise in coronavirus cases led to concerns about a pause and/or slowdown in the reopening of many states' economies. Struggling sectors last week included energy, financials, and communication services. The energy sector was hurt as the increase in coronavirus cases led to concerns about demand. Meanwhile, financials sold off as Thursday's bank stress test results led to the Fed restricting large banks to increase dividends or repurchase shares. Finally, communication services were hit this week as many companies, including consumer goods giant Unilever, pulled advertising from social media platforms in the U.S. to protest hate speech. Top-performing sectors included technology, consumer discretionary, and materials.

• On Monday, May's existing home sales report was released. Sales fell by 9.7 percent, against expectations for a 5.6 percent decline. This follows 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. With mortgage rates near a three-year low and consumer confidence stabilizing in June, there is hope that home sales may rebound in the upcoming months; however, as May's results showed, the pandemic's disruption to the housing market was severe. It will likely take some time before we see the pace of home sales recover to pre-pandemic levels.

• On Tuesday, May's new home sales report was released. New home sales grew by 16.6 percent, against expectations for a more modest 2.7 percent increase. April's surprising 0.6 percent increase in new home sales was revised to a 5.2 percent decline. New home sales are a smaller and often more volatile portion of the housing market, compared with existing home sales, but the increase in May is still a positive sign for the housing market overall. Once again, the combination of low rates and improving consumer demand is expected to serve as a tailwind for new home sales as we begin summer.

• On Thursday, the preliminary durable goods orders report for May was released, with

orders increasing by 15.8 percent following a downwardly revised 18.1 percent decline in April. Much of the increase in headline durable goods orders can be attributed to volatile transportation orders. Core durable goods orders, which strip out the impact of transportation orders, increased by 4 percent, against expectations for 2.1 percent growth. This increase for core durable goods orders was not enough to offset April's 8.2 percent decline. Although the results for headline and core durable goods orders in May were welcome, these measures of business activity were hit especially hard by the pandemic. There remains a long road back to pre-pandemic levels.

- On Friday, May's personal income and personal spending reports were released. Results were mixed, with personal spending increasing by 8.2 percent while incomes fell by 4.2 percent. Economists had forecast a 9.3 percent increase in spending, while incomes were slated to fall by 6 percent. Personal income in April was bolstered by onetime CARES Act payments, and part of the decline in May can be attributed to the lack of continued pandemic payments. The increase in spending during the month was the largest on record; however, it only partially offset the 12.2 percent decline in April, which was the worst single-month decline since records began in 1959. The rebound in spending in May was welcome, but it will likely take some time to recover from the damage to consumer spending caused by the pandemic.

- We finished the week with Friday's release of the second and final estimate of the University of Michigan consumer sentiment survey for June. Consumer sentiment declined slightly, from 78.9 midmonth to 78.1 at month-end. This still represents a strong increase from May's final level of 72.3. In fact, this is the largest monthly increase

in more than three years. The better-than-expected May jobs report and continued equity market rebound helped support the increase in confidence in June. Rising infection figures in June, however, likely caused the slight pullback we saw during the month. Increased consumer sentiment typically supports faster spending growth, so this will continue to be a carefully monitored economic update as reopening efforts continue.

WHAT TO LOOK FORWARD TO

On Tuesday, we'll get another look at consumer sentiment with the release of the Conference Board Consumer Confidence Index for June. Economists expect confidence to increase from 86.6 in May to 90 in June. The May jobs report and solid equity markets are expected to support increased consumer confidence in June, which would be a good sign for the month's consumer spending figures. Given that consumer spending accounts for roughly two-thirds of all economic activity, increasing confidence would certainly be seen as a tailwind for overall economic recovery. It's worth noting, however, that this index hit a 2020 high of 132.6 in February, so it may be a long way back to match recent highs for consumer confidence.

On Wednesday, the Institute for Supply Management Manufacturing index for June is set to be released. This measure of manufacturing sector confidence is expected to increase from 43.1 in May to 49.2 in June. This is a diffusion index, where values below 50 indicate contraction, so while an increase would be welcome, it would still leave the manufacturing sector in decline. Manufacturer confidence showed surprising resilience throughout the pandemic, but the April reading of 41.5 was the index's worst result since the great financial crisis. That plunge was driven, in large part, by factory

shutdowns meant to combat the spread of the coronavirus. With more factories opening in late May and early June, the anticipated rebound in manufacturer confidence makes sense. Nonetheless, disruptions to global supply chains and lowered global demand caused by the coronavirus pandemic are expected to serve as a short-term headwind for manufacturers.

Also on Wednesday, the minutes from June's Federal Open Market Committee meeting are set to be released. There were no major surprises at this meeting, as Fed members voted unanimously to keep the federal funds rate unchanged at virtually zero. In addition, given testimony by Fed Chairman Jerome Powell to Congress during his semiannual monetary report on June 16, economists do not expect the minutes to show much new information. With that being said, the Fed did release updated economic forecasts at the June meeting that showed a relatively bleak outlook for the economy over the next few years, so the minutes may contain additional commentary explaining the thinking behind those forecasts. The minutes might show, for example, whether any Fed members factored a potential second wave of infections or the prospect of further shutdowns into their expectations.

On Thursday, the international trade balance for May is set to be released. Economists expect to see the trade deficit widen from \$49.4 billion in April to \$52.3 billion in May due to a large drop in exports that is anticipated to outweigh a smaller decline in imports. Previously released data saw the trade deficit for goods during the month widen by much more than expected, with exports hitting an 11-year low. Given the disruptions to supply chains and diminished global demand due to the pandemic, it will likely take quite some time for international trade to return to pre-pandemic levels.

Thursday will also see the release of the weekly initial jobless claims estimate for the week ending June 27. Economists expect to see initial claims fall for the 13th consecutive week, down to 1.34 million from 1.48 million the week before. Although continued declines for initial claims would certainly be welcome, the pace of declines has slowed over the past few weeks, indicating the jobs market still faces significant stress despite reopening efforts. Continuing claims are expected to fall further, down to 18.9 million from 19.52 million. We will continue to monitor these weekly releases until we see the number of claims return to normal levels.

We'll finish the holiday-shortened week with Thursday's release of the June employment report. Economists expect to see the creation of an additional 3 million jobs during the month, following a surprisingly strong 2.5 million new jobs in May. The unemployment rate should decline from 13.3 percent in May to 12.4 percent in June. Although these improvements would certainly be welcome, it's important to look at this release in context. We lost more than 20 million jobs in April, and the forecasted unemployment rate of 12.4 percent would still mark the third-highest rate since the end of World War II. Ultimately, while continued reopening efforts are expected to lead to a strong jobs report for June, the road back to a full economic recovery will likely be long. The recent rise in COVID-19 cases has shown there will likely be setbacks along the way.

| Equity Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|-----------------------|--------------|---------------|--------------|----------|
| S&P 500 | -2.86% | -1.03% | -5.95% | 4.93% |
| Nasdaq Composite | -1.90% | 2.88% | 9.28% | 23.72% |
| DJIA | -3.31% | -1.33% | -11.26% | -3.34% |
| MSCI EAFE | -1.30% | 3.30% | -11.44% | -4.81% |
| MSCI Emerging Markets | -0.16% | 7.69% | -9.50% | -3.08% |
| Russell 2000 | -2.80% | -1.00% | -16.79% | -9.55% |

Source: Bloomberg

| Fixed Income Index | Month-to-Date | Year-to-Date | 12-Month |
|--------------------|---------------|--------------|----------|
| U.S. Broad Market | 0.21% | 6.14% | 8.80% |
| U.S. Treasury | 0.51% | 8.86% | 10.63% |
| U.S. Mortgages | 0.03% | 3.45% | 5.62% |
| Municipal Bond | 0.14% | 2.03% | 4.43% |

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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