Weekly Market Update

General Market News

- The 10-year Treasury yield opened at 0.72 percent on Monday, where it spent most of last week. It fell as low as 0.56 percent the week before and rose as high as 1.27 percent in mid-March. It seems to have settled within a small range now, though, waiting out more news. The 2-year opened at 0.221 percent, and the 30-year opened at 1.344 percent. The market seems to be holding out to see what the broader economic impact of COVID-19 will be for the U.S. and the rest of the world, something we should have more information on in the weeks to come. The Federal Reserve (Fed) meets later this month and may provide more clarity.
- Markets rallied last week, as there were signs that growth in new coronavirus cases may be leveling off. In addition, there were discussions of an oil production cut, as well as a potential plan to reopen U.S. businesses. The Fed stepped up on Thursday, pledging to provide an additional $2.3 trillion in loans to support the economy. All of these measures helped suppress some the main economic risks that have been plaguing markets. The Russell 2000 Index led the rally for week, as small-cap companies, which were among the hardest hit in the recent sell-off, received support from the Fed and the Small Business Administration's Paycheck Protection Program.
- Last week, there was a notable shift in the sectors that outperformed, as many of the top sectors—REITs, materials, and financials—were the ones that had recently taken a beating. Those sectors that outperformed in previous weeks, such as consumer staples, health care, communication services, and technology, lagged for the week.
- On Thursday, the Producer Price Index for March was released. Producer inflation came in above expectations, with prices falling 0.2 percent during the month, against expectations for a larger decline of 0.4 percent. On a year-over-year basis, producer inflation came in at 0.7 percent, down from 1.3 percent in February but above expectations for 0.5 percent annual inflation. The declining inflation was due in large part to lowered gas prices, as the core figure, which strips out energy and food prices, was flat for the month. Inflation remained well constrained in 2019, despite three rate cuts from the Fed during the year.
- Thursday also saw the release of the weekly initial jobless claims report for the week ending April 4. An additional 6.606 million Americans filed for initial unemployment claims during the week, bringing the three-week total to more than 16.5 million. This recent surge in initial jobless claims is unprecedented in U.S. history and indicates that the unemployment rate will continue to climb in April, with a double-digit reading now likely. This will continue to be a closely monitored weekly data release until we see some sort of tapering off in initial jobless claims.

General Market News (continued)

- Finally, we finished the week with Thursday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for April. This measure of consumer confidence fell by more than expected, from 89.1 in March to 71 in April, against estimates for a drop to 75. This brought the index to its lowest level since 2011 and marks the largest single-month decline in history. This survey included responses between March 25 and April 7, when the pace of layoffs was increasing massively. Consumer confidence is supported by rising equity markets and a healthy job market, so it is not a surprise that consumers reacted to the unprecedented pace of layoffs and the market volatility with sharply lower confidence. Rising confidence, in turn, typically supports additional consumer spending growth, so this sharp decline is a bad sign for March and April's spending figures.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	12.15	8.02	–13.15	–1.47
Nasdaq Composite	10.59	5.91	–8.87	3.70
DJIA	12.69	8.30	–16.32	–7.01
MSCI EAFE	8.30	3.25	–20.32	–13.29
MSCI Emerging Markets	6.83	4.74	–19.98	–16.15
Russell 2000	18.53	8.16	–24.96	–19.86

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.57	4.01	10.09
U.S. Treasury	–0.63	8.31	13.92
U.S. Mortgages	0.36	3.29	7.62
Municipal Bond	1.75	–0.67	3.96

Source: Morningstar Direct

What to Look Forward To

On Wednesday, the retail sales report for March will be released. Sales are projected to fall by an eye-catching 6 percent during the month, following a 0.5 percent decline in February. This result would represent the largest single monthly decline in retail sales history, beating the previous record of a 3.9 percent monthly drop set in November 2008. This figure will likely be partly attributable to lower gas prices, but the drawdown in spending is expected to be more widespread. The core retail sales figure, which strips out the impact of volatile auto and gas sales, is set to show a 4.7 percent decline for the month. Consumer spending accounts for roughly two-thirds of economic activity, so a sharp decline would be a negative signal for overall economic growth.

Wednesday will also see the release of March's industrial production report. Predictions are for a 4.1 percent drop in production during the month, following a better-than-expected 0.6 percent gain in February. This result would be in line with a 4.3 percent monthly decline in production that occurred in September 2008. Much of the expected drop-off should come from a steep decline in manufacturing output. The forecast is for this segment to fall by 3.1 percent, due to weaker global demand related to the coronavirus crisis. Manufacturer confidence and output were volatile throughout much of 2019 due to the escalating U.S.-China trade war. To start 2020, however, we saw signs of growth, which makes these projections all the more disappointing. Given the disruptions to the labor force and falling global demand, a rebound in manufacturing output appears unlikely until we can better control the spread of the coronavirus.

The third major data release on Thursday will be April's National Association of Home Builders Housing Market Index. This measure of home builder sentiment is set to show a steep fall from 72 in March to 59 in April. This result would bring home builder confidence to its lowest level in more than a year; however, the index would still sit above the low-water mark of 56 set in December 2018. Home builders experienced steadily increasing confidence throughout 2019, as low mortgage rates spurred prospective buyers into the market. This trend led to a surge in new home construction during the year and into 2020, with housing starts reaching their highest monthly level in 13 years in January. If estimates for home builder sentiment hold, the cratering confidence would likely serve as a headwind for future construction.

Speaking of construction, on Thursday, March's housing starts and building permits reports will be released. Both are expected to show significant declines for the month, with starts and permits slated to fall by 17.5 percent and 10.5 percent, respectively. Although these releases can be volatile on a monthly basis, seeing further weakness in new home construction would not be surprising given the current health crisis. The strong run-up in construction in 2019 and the start of 2020 does help cushion the projected decline a bit. Without it, starts would be at levels last seen in September 2019 if the estimates hold. The housing sector has been an engine for economic growth for some time, but future weakness should be expected.

What to Look Forward To (continued)

Finally, we'll finish the week with Thursday's release of the U.S. initial jobless claims report for the week ending April 11. Economists are currently estimating that an additional 5 million Americans will have filed new unemployment claims last week. This number would represent a decline from the average of 6 million new filers seen over the previous two weeks. Still, the report would show that roughly 22 million Americans lost their jobs over a four-week period—another indication of the unprecedented situation we now find ourselves in. We'll continue to monitor this weekly release closely until we get a sign that the pace of layoffs and dismissals has begun to slow.

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