MAY 11, 2020

Weekly Market Update

General Market News

- The 10-year Treasury yield spiked to 0.74 percent last week before dropping to 0.60 percent on Friday and opening at 0.68 percent on Monday. The 2-year yield opened at 0.15 percent, while the 30-year yield opened at 1.40 percent. April's Consumer Price Index (CPI), Producer Price Index (PPI), and retail sales will be released this week, giving us a better understanding of the pandemic's effects on the economy and likely spurring some additional volatility.

- The S&P 500, Dow Jones Industrial Average, and Nasdaq Composite were all up on the week, with the Nasdaq Composite leading the way with a gain of more than 6 percent. Small-cap stocks also continued their recent rally, as the Russell 2000 moved up another 5.52 percent. The rally came despite a sharp increase in the unemployment rate and concerns over a potential second wave of the coronavirus. It was supported by the Federal Reserve's (Fed's) continued economic assistance, as well as positive earnings reports, which revealed a pickup in business activity from lows at the end of March.

- The top-performing sector on the week was energy, as West Texas Intermediate crude oil rallied by 25 percent. Technology and consumer discretionary also had a strong week. The worst performers were the bond proxies in utilities, consumer staples, and financials.

- On Tuesday, the Institute for Supply Management Nonmanufacturing index was released. This measure of service sector confidence declined from 52.5 in March to 41.8 in April, against expectations for a larger fall to 38. Despite the better-than-expected result, this still brought the index to its lowest level in more than a decade, as service sector confidence now sits near the all-time low of 37.8, set in November 2008. This is a diffusion index, where values below 50 indicate contraction, so this decline was concerning but not necessarily surprising, given the business shutdowns during the month.

- Friday brought the release of the April employment report. As expected, this report showed the devastating effects widescale shelter-in-place orders had on the jobs market, with 20.5 million jobs lost during the month. This result was better than economist estimates for 22 million, but previously released unemployment claims data indicates that this report may be undercounting the full extent of the jobs lost during the month. The unemployment rate increased to a post-war high of 14.7 percent, against expectations for a further increase to 16 percent. Despite the better-than-expected results, this represents the worst single month for American job losses on record and brought the unemployment rate well above the 10 percent high we saw during the 2008 financial crisis.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	3.57	0.67	–8.68	4.13
Nasdaq Composite	6.05	2.66	2.02	16.57
DJIA	2.67	0.05	–14.03	–3.46
MSCI EAFE	0.87	–0.45	–18.21	–9.04
MSCI Emerging Markets	–0.52	–1.40	–17.77	–9.00
Russell 2000	5.52	1.48	–19.92	–14.04

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.33	4.52	10.12
U.S. Treasury	–0.30	8.48	13.46
U.S. Mortgages	0.11	3.59	7.63
Municipal Bond	0.78	–0.79	2.68

Source: Morningstar Direct

What to Look Forward To

On Tuesday, April's CPI will be released. Consumer prices are expected to fall by 0.7 percent during the month, following a 0.4 percent decline in March. On a year-over-year basis, consumer prices are expected to rise by a modest 0.4 percent, down notably from the 1.5 percent year-over-year growth rate the month before. Lowered gas prices are one of the major drivers of expectations for lowered inflation. Core consumer inflation, which strips out the impact of volatile gas and food prices, is expected to fall by only 0.2 percent during the month. This result would translate to year-over-year core consumer inflation of 1.7 percent, the lowest level seen since September 2017. In the short term, the negative shock to consumer demand created by efforts to battle the spread of the coronavirus is expected to continue to hold back inflationary pressure for consumers.

On Wednesday, April's PPI will be released. Economists expect to see a 0.4 percent decline in headline producer inflation for the month, which would cause producer prices to decline by 0.2 percent on a year-over-year basis. As was the case with consumer inflation, core producer prices are expected to show a more modest decline of 0.1 percent in April, leading to 0.8 percent year-over-year inflation for this segment. If the estimates hold, year-over-year core producer inflation will hit its lowest level in more than four years. Despite the raft of supportive policy measures enacted by the Fed over the past two months, the collapse in global demand is expected to serve as a headwind to inflation in the short term.

On Thursday, the weekly U.S. initial jobless claims report for the week ending May 9 is set to be released. Economists anticipate an

What to Look Forward To (continued)

additional 2.5 million initial unemployment claims to be filed. Although this result would represent the sixth straight week of declining initial claims, it would bring the eight-week total up to roughly 36 million recently unemployed Americans. If estimates hold, this report would show that mass layoffs have continued into May. We will continue to monitor this weekly gauge of the health of the jobs market until we see levels approach historical norms.

Friday will see the release of April's retail sales report. Sales are expected to fall by 11 percent during the month, following an 8.7 percent decline in March. To put this into perspective, the worst two back-to-back months for retail sales during the great financial crisis saw sales fall by a combined 6.7 percent. Part of this anticipated decline can be attributed to lowered spending on gas. But even core retail sales, which exclude volatile gas and auto purchases, are slated to decline by 5.5 percent in April. This result would mark the worst month on record for core retail sales, passing last month's record 2.8 percent decline. Given the importance of consumer spending to the overall economy, if estimates prove to be accurate, April's retail sales would be a negative signal for second-quarter gross domestic product growth.

Friday will also see the release of the industrial production report for April. Economists expect production to fall by 11.4 percent during the month, following a disappointing 5.4 percent decline in March. The March report represented the worst monthly drop in output since 1946, so the prospect of a further decline is concerning. Much of the April forecast can be traced to low expectations for manufacturing output. This segment is set to fall by 14 percent during the month, after declining by 6.3 percent in March. Given the massive drop in global demand created by the ongoing pandemic, industrial production and manufacturing output are expected to remain challenged until the global economy shows signs of a recovery.

Finally, we'll finish the week with Friday's release of the first estimate of the University of Michigan consumer sentiment survey for May. This widely followed measure of consumer confidence is expected to decline from 71.8 in April to 67.5 in May. This result would not be surprising, given the fact that most Americans were still under shelter-in-place orders at the beginning of the month. Consumer confidence is typically supported by positive market performance and a strong jobs market. While markets have partially rebounded from recent lows, April's employment report showcased the damage that efforts to combat the spread of the coronavirus have had on the jobs market. The extremely weak employment situation will likely serve as a headwind against further improvements to consumer confidence, unless large-scale progress is made in returning Americans to work. Consumer confidence will be a widely followed metric over the coming months. Hopes of a swift economic recovery largely rely on a rebound in consumer confidence and spending.

Authored by the Investment Research team at Commonwealth Financial Network.