Weekly Market Update

General Market News

- Rates retreated a bit last week after increasing notably the previous week. The long end of the curve saw the largest declines, with the 10-year Treasury yield falling from 0.69 percent at the start of the week to 0.64 percent, while the 30-year dropped from 1.43 percent to 1.35 percent.
- Last week's rally was driven by the technology, consumer discretionary, and communication services sectors, with the so-called "Awesome 8" (Amazon, Apple, Google, Facebook, Microsoft, Netflix, Nvidia, and Tesla) maintaining their leadership. The tech-oriented Nasdaq continued its outperformance since March, passing its prepandemic high last week. The positivity around the market was mainly supported by lower coronavirus case counts and continued liquidity from central banks. The sectors that lagged the most were energy, financials, and utilities.
- We started the week with Monday's release of the National Association of Home Builders Housing Market Index for August. This measure of home builder confidence increased by more than expected, rising from 72 in July to 78 in August against calls for a more modest increase to 74. This result marks the second straight month where home builder confidence beat expectations, and it brought the index to a record high last reached in 1998. Home builder confidence has been boosted by record low mortgage rates, which have been driving additional prospective home buyers into the market since reopening efforts started in May. The swift rebound in home builder confidence since hitting a seven-year low of 30 in April has been impressive and has supported a recovery in new home construction.
- Speaking of new home construction, Tuesday saw the release of July's building permits and housing starts reports. Both permits and starts blew away expectations, rising by 18.8 percent and 22.6 percent, respectively, against forecasts for roughly 5 percent growth. The rebound was widespread; starts increased in all four geographic regions, with notable strength in the Midwest. This marked the largest monthly gain for starts since 2016 and brought the pace of new home construction close to recent highs set before the pandemic hit. Record low mortgage rates have driven increased buyer demand and home builder confidence, serving as a tailwind for the entire housing sector, which has been one of the bright spots in the recent recovery.
- We finished the housing-focused week with July's existing home sales report. Sales of existing homes rose by 24.7 percent against calls for a 14.6 percent increase, following a downwardly revised 20.2 percent increase in June. This better-than-expected result represents the single best month for existing home sales, bringing the pace of existing home sales to its highest level since 2006. Continued falling mortgage rates in July helped bolster the impressive surge in sales we saw during the month.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.77	3.99	6.47	18.49
Nasdaq Composite	2.69	5.37	26.85	42.95
DJIA	0.09	5.91	–0.59	8.96
MSCI EAFE	–0.99	3.43	–6.17	5.21
MSCI Emerging Markets	–0.10	1.28	–0.46	14.52
Russell 2000	–1.59	4.96	–6.13	4.60

Source: Bloomberg, as of August 21, 2020

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.27	7.14	7.43
U.S. Treasury	0.45	9.15	8.16
U.S. Mortgages	–0.01	3.68	4.88
Municipal Bond	–0.31	3.65	3.74

Source: Morningstar Direct, as of August 21, 2020

What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for August is set to be released. Consumer confidence is expected to rise modestly from 92.6 in July to 93 in August. Confidence fell notably in July as rising case counts worried consumers; however, we've seen evidence that efforts to contain the spread of the coronavirus are paying off and consumer confidence has started to recover. Improving confidence typically supports faster consumer spending growth, so any increase to the index would be a positive development. Still, the index reached its high of 132.6 in February, so there remains a long way back to pre-pandemic confidence levels.

July's new home sales report will also be released Tuesday. It is expected to show a decline of 0.1 percent, following a 13.8 percent increase in June. New home sales rebounded in June to their highest level in nearly 13 years, so the anticipated decline isn't worrisome. New home sales are a smaller and often more volatile portion of overall sales compared with existing home sales. The swift rebound in new home sales has helped support the faster-than-expected rebound in home builder confidence we've seen over the past few months. Builders are confident they will be able to sell newly constructed homes, especially in supply-constrained regions.

What to Look Forward To (continued)

On Wednesday, the preliminary estimate of July's durable goods orders report will be released. Durable goods orders are expected to rise by 4 percent during the month, following a strong 7.6 percent rise in June. Reopening efforts in May and June served as a tailwind for business spending in the second quarter, and a continued rebound in July would be encouraging. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to show solid 1.7 percent growth after rising by 3.6 percent in June. Core durable goods orders are often used as a proxy for business investment, so a continued rebound in July would be a reassuring sign that businesses were spending despite rising case counts during the month. If estimates prove accurate, the pace of core durable goods orders would be close to prepandemic levels, pointing toward a surge in business investment once reopening efforts began.

The second estimate of second-quarter gross domestic product (GDP) growth will be released Thursday. Economists expect the economy to have contracted at an annualized rate of 32.5 percent during the quarter, which is an improvement from the initial forecast for a 32.9 percent annualized contraction. If estimates hold, this report would still represent the worst single quarter for economic growth in modern history, surpassing the 8.4 percent annualized decline we saw in the fourth quarter of 2008. A sharp drop in personal consumption—the previously reported 34.6 percent annualized decline in consumption was the largest quarterly decline on record—was the primary driver of economic contraction during the quarter. These figures are certainly concerning, but it's important to note that this data is nearly two months old. Economists anticipate a double-digit rebound in GDP growth in the third quarter, which should partially offset the damage created by anticoronavirus measures in the second quarter.

The weekly jobless claims report for the week ending August 22 will be released Thursday. Economists expect to see 1 million initial unemployment claims filed during the week, which would be down modestly from the 1.1 million initial filers the week before. Although declining initial claims would be welcome, this result would represent a disappointing increase from the 971,000 initial claims filed in the first week of August. Initial claims have shown a decent recovery since peaking at just more than 6.8 million at the end of March, when lockdowns started. The recent pace of initial and continuing unemployment claims remains historically high, however, which indicates the labor market needs a lot of work. We'll continue to monitor this important weekly release until claims approach more normal levels.

On Friday, July's personal income and personal spending reports are set to be released. Spending is expected to show solid 1.5 percent growth during the month, following a 5.6 percent surge in June. This would be an encouraging result given the headwinds for consumer spending created by rising case counts and the slowdown or even rollback of reopening efforts in some states throughout the month. If estimates hold, the spending report would be in line with a previously reported 1.5 percent increase in core retail sales in July. Personal income is expected to fall by 0.5 percent in July, following a 1.1 percent decrease in June. Incomes have been volatile because of onetime $1,200 payments distributed in April, which sent the index up more than 12 percent. Given the lack of recurring stimulus payments, the decline we've seen in personal income every month since make sense.

Finally, we'll finish the week with the second and final reading of the University of Michigan

What to Look Forward To (continued)

consumer sentiment survey for August. Economists expect to see the index remain unchanged from the preliminary reading of 72.8 released earlier in the month. If estimates hold, this would represent a modest increase from July's 72.5 reading and would be in line with the anticipated rise in the Conference Board Consumer Confidence Index during the month. Economists forecasted a decline to 72 before the preliminary estimate was released. As such, this result would still be an improvement compared with the start of the month, even if there is no intramonth improvement. Consumer confidence will continue to be a widely monitored economic indicator as the recovery continues, given the importance of consumer attitudes and spending on the overall economy.

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. Rev. 08/20.

Authored by the Investment Research team at Commonwealth Financial Network.