Weekly Market Update

General Market News

- Treasury yields experienced heightened volatility during the shortened holiday week. The 10-year opened at 0.76 percent, dropped to as low as 0.68 percent by Wednesday, and spiked right back up to 0.76 percent this Monday morning. (The 30-year opened at 1.56 percent and the 2-year at 0.14 percent.) Many factors are affecting yield markets, including supply, governmental spending, the upcoming election, and a possible stimulus package. Other factors are in play, too, including the economy, the Federal Reserve (Fed), and COVID-19 and its related repercussions.

- Large-cap U.S. indices posted modest gains last week. Trading was largely specific to stimulus talks and individual leader performance in certain sectors. Top-performing sectors were industrials, communication services, utilities, technology, and consumer staples. Lagging sectors were real estate investment trusts, energy, financials, and health care. Examples of the mixed trading included an uptick in machinery (Caterpillar) and parcel and logistics (FedEx), offset by weakness in airlines. Communication services and technology were supported by gains in Google and Apple. Consumer staples also saw a pickup in big box retailers Costco and Walmart. The travel and leisure segment moved lower as United Airlines posted greater losses than expected. In addition, we saw lack of enthusiasm from the House of Representatives for a stand-alone airline stimulus package. Health care underperformed as Eli Lilly and Johnson & Johnson paused their coronavirus drug trials.

- On Tuesday, September's Consumer Price Index report was released. Consumer prices rose by 0.2 percent, in line with economist expectations and down from a 0.4 percent increase in August. Consumer inflation rose by 1.4 percent year-over-year, as expected. Core consumer prices, which strip out the impact of volatile food and energy prices, rose by the expected 0.2 percent during the month and 1.7 percent year-over-year. The lockdowns created deflationary pressure earlier in the year, but reopening efforts led to an uptick in inflationary pressure throughout the summer. Despite the tailwind created by increased consumer demand, however, overall prices remain constrained, and the slowdown in consumer inflation indicates the tailwind may have faded.

- The Producer Price Index for September was released on Wednesday. Producer prices increased by more than expected—albeit at a slower pace than consumer inflation—rising by 0.4 percent against calls for a 0.2 percent increase. This brought the year-over-year rate of producer inflation up to 0.4 percent, marking the first time producer inflation has been positive on a year-over-year basis since March. Core producer inflation, which strips out food and energy prices, also rose by more than expected, up 0.4 percent during the month and 1.2 percent for the year against forecasts for more modest 0.2 percent and 1 percent growth, respectively. Despite the moderate pickup in inflation we've seen since reopening efforts began, inflation remains well below the Fed's stated 2 percent target, and the Fed is not expected to react to rising inflation by raising rates until the job market improves considerably.

General Market News (continued)

- We finished the week with Friday's release of the September retail sales report. Sales impressed, rising by 1.9 percent against calls for a more modest 0.8 percent increase. This result marks the best month of sales since June and signals that consumers were willing and able to continue spending despite expired government stimulus. Core retail sales, which strip out the impact of volatile auto and gas sales, also impressed, with a 1.5 percent increase during the month against calls for a 0.5 percent increase. The gains were widespread, with traditional back-to-school categories and recreational goods showing notable strength. This strong report bodes well for third-quarter growth, given the importance of consumer spending on the overall economy.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.21	3.67	9.45	18.42
Nasdaq Composite	0.79	4.54	31.02	44.46
DJIA	0.07	3.02	2.09	8.38
MSCI EAFE	–1.45	1.50	–5.70	0.19
MSCI Emerging Markets	0.15	3.95	2.74	11.76
Russell 2000	–0.22	8.40	–1.01	7.48

Source: Bloomberg, as of October 16, 2020

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.24	6.81	7.24
U.S. Treasury	0.25	8.47	8.04
U.S. Mortgages	0.00	3.58	4.30
Municipal Bond	0.11	3.01	3.62

Source: Morningstar Direct, as of October 16, 2020

What to Look Forward To

We started the week with Monday's release of the National Association of Home Builders Housing Market Index for October. This measure of home builder confidence increased by more than expected, rising from 83 in September to 85 in October against calls to remain unchanged. This gain brought the index to a record high, breaking the previous mark set in September. Home builder confidence has rebounded notably since reopening efforts took hold, aided by record-low mortgage rates that have driven additional prospective home buyers into the market. Confidence was further supported by falling timber prices during the month. Previously, the pace of new home sales hit its highest level in 14 years in August. Historically, higher levels of home builder confidence have supported faster building of new homes, so this report bodes well for October's new home construction reports.

Speaking of new home construction, the September building permits and housing starts reports are set to be released on Tuesday. Both measures are expected to show growth, with permits and starts slated to increase by 3.2 percent and 2.4 percent, respectively. As noted above, home builder confidence set a new all-time high in September, which helps explain the anticipated increases in new home construction. Furthermore, lumber prices have dropped considerably compared with prices earlier in the summer, which should serve as an additional tailwind for new construction. Driven by rising home builder confidence, falling mortgage rates, and limited supply, building permits and housing starts have improved markedly since hitting a pandemic-induced low in April.

On Thursday, the weekly initial jobless claims report for the week ending October 17 will be released. Economists expect to see an additional 848,000 initial claims filed during the week, down from the 898,000 claims filed the previous week but still very high on a historical basis. If estimates hold, this report would mark seven consecutive weeks in which initial claims have hovered around 850,000 per week, roughly four times the average we saw in 2019. Continuing unemployment claims are also expected to decline, but some of the anticipated drop can be attributed to claimants exhausting their state benefits and going on federal emergency pandemic aid rather than returning to the workforce. Given the continued stress on the labor market, this weekly update will continue to be widely followed.

We'll finish the week with Thursday's release of the September existing home sales report. Existing home sales are expected to rise by 3 percent, following a 2.4 percent increase in August. The pace of existing home sales has already surpassed pre-pandemic levels, and, if the estimate holds, would be up more than 14 percent compared with last September. September would mark the best month for existing home sales since December 2006, highlighting the impressive rebound we've seen in the housing sector over the past few months. Looking forward, the low level of available inventory may start to serve as a headwind for existing home sales, as the supply of existing homes for sale was down 18.6 percent on a year-over-year basis in August.

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