NOVEMBER 16, 2020

Weekly Market Update

General Market News

- Last week saw a major pickup in Treasury yields following the news of the Pfizer and BioNTech vaccine results. The 10-year Treasury yield opened at 0.83 percent and closed just shy of 0.89 percent, hitting an intra-week high of 0.97 percent on Tuesday. The 1 percent mark remains an important level to watch, particularly with additional discussion of stimulus. The 30-year opened at 1.67 percent, gaining 3 basis points on the week, while the 2-year opened at 0.18 percent.

- The vaccine results also fueled a shift in equity market dynamics. The Dow Jones Industrial Average, which has lagged the technology-oriented Nasdaq Composite throughout the pandemic, outperformed week. The vaccine gave way to greater demand hopes for energy and industrial stocks and increased lending rate expectations for financials. These sectors posted sharp gains to begin the week, but as the week went on, technology, consumer discretionary, and communication services regained footing with the record number of coronavirus cases and stricter state-specific measures.

- On Thursday, October's Consumer Price Index was released. This measure of consumer inflation came in below expectations for the month, as prices remained flat against calls for a 0.1 percent increase. Core consumer prices, which strip out the impact of volatile food and energy prices, also remained unchanged, against forecasts for 0.2 percent growth. On a year-over-year basis, headline prices rose by 1.2 percent while core prices increased by 1.6 percent. Inflation has remained largely constrained this year due to the deflationary pressure created by the pandemic, and this report showed a moderation in the modest upward price pressure we've seen since lockdowns ended.

- Friday saw the release of the Producer Price Index report for October. Headline producer prices rose by 0.3 percent against calls for a 0.2 percent increase. Core producer prices, which strip out the impact of food and energy prices, rose by a more modest 0.1 percent, against forecasts for 0.2 percent growth. These results brought year-over-year producer inflation up to 0.5 percent, while core producer prices rose by 1.1 percent on an annual basis. Overall, these two reports showed that inflation remains under control, as both consumer and producer inflation is well below the Federal Reserve's (Fed's) stated 2 percent inflation target. With the Fed's current focus on supporting the ongoing labor market recovery, inflation is not expected to drive monetary policy for the time being.

- We finished the week with Friday's release of the preliminary University of Michigan consumer sentiment survey for November. This first look at consumer confidence for the month showed an unexpected decline, from 81.8 in October to a three-month low of 77 to start November. This decline was driven by a notable drop in future expectations due to lowered Republican expectations for economic growth. The decline took Republican expectations to their lowest level since the start of the Trump presidency. Democrat expectations, on the other hand, rose modestly during the month, after increasing notably in October, presumably due to heightened expectations for a Biden presidency. Historically, improving consumer confidence has helped support faster spending growth, so this is

General Market News (continued)

a disappointing update that bodes poorly for consumer spending as we head into the holiday season.

- 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	2.21	9.74	12.77	17.96
Nasdaq Composite	–0.53	8.47	32.88	40.81
DJIA	4.19	11.36	5.37	8.60
MSCI EAFE	3.89	12.32	0.18	4.18
MSCI Emerging Markets	1.03	7.72	8.66	16.54
Russell 2000	6.13	13.44	5.76	11.32

Source: Bloomberg, as of November 13, 2020

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.14	6.68	7.01
U.S. Treasury	–0.30	7.80	7.58
U.S. Mortgages	0.00	3.57	3.98
Municipal Bond	0.08	3.75	4.63

Source: Morningstar Direct, as of November 13, 2020

What to Look Forward To

On Tuesday, the October retail sales report is set to be released. Sales are expected to show 0.5 percent growth during the month, following a 1.9 percent increase in September. Core retail sales, which strip out the impact of volatile auto and gas purchases, are expected to grow by 0.6 percent, following a 1.5 percent increase in September. The pace of sales growth is set to slow, however, following the better-than-expected September results, which were driven in part by a surge in clothing sales. With that said, we should see continued retail sales growth in October, supported by the later-than-normal Amazon Prime day. If estimates hold, this report would mark six straight months with sales growth, although the pace of growth has slowed notably since earlier in the summer. Looking forward, more moderate gains are expected, as retail sales have already rebounded well past pre-pandemic levels.

Tuesday will also see the release of the October industrial production report. Production is expected to show solid 1 percent growth during the month, following a disappointing 0.6 percent decline in September. The September result was due primarily to a drop in manufacturing output during the month. In October, economists expect manufacturing output to rebound and rise by 1 percent. If estimates hold, this report would mark a return to growth for this important sector of the economy. Nonetheless, the pace of recovery for producers would remain below that for consumers. Demand remains strong, which should serve as a tailwind for future production growth. We have, however, seen a gap between increased consumer demand and manufacturing output since lockdowns ended, as producers have been slower to adapt to the pandemic economy.

The third major data release on Tuesday will be the National Association of Home Builders Housing Market Index for November. This measure of home builder confidence is expected to remain unchanged at 85. If estimates hold, this release would tie the record high the index set in October. Home builder confidence has rebounded impressively following the end of lockdowns, as record-low mortgage rates have driven prospective home buyers into the market in droves. But supply has remained constrained in key markets, providing a boon for home builder confidence. Historically, an inverse relationship has existed between the supply of homes available for sale and home builder confidence. Accordingly, the low inventory levels should continue to serve as a tailwind for confidence and faster new home construction over the coming months.

Speaking of new home construction, Wednesday will see the release of the October building permits and housing starts reports. Both of these measures of new home construction are expected to show growth during the month. Permits are set to rise by 1.5 percent and starts are expected to show a 2.5 percent gain. Post-lockdown, housing starts have been boosted by high home builder confidence and low inventory in key regions. Single-family housing starts have been a highlight, hitting their highest level in 13 years in September. This rise in single-family homes has helped offset volatility in multifamily starts over the past few months. In the post-pandemic world, shifting home buyer demand has home builders favoring single-family homes over condominium or apartment buildings.

Thursday will see the release of the weekly initial jobless claims report for the week ending November 14. Economists expect to see 710,000 initial unemployment claims were filed during the week, which would be a slight increase from the 709,000 filed the week before. Continuing unemployment claims are expected to show steady decline. Still, despite the very real progress we have made in lowering initial and continuing unemployment claims since lockdowns ended, they remain high on a historical basis. The fact demonstrates the continued stress on the labor market. For context, if the estimates for November 14 prove accurate, initial claims would still be more than three times higher than the weekly average from 2019. These weekly releases will continue to be widely monitored until initial and

What to Look Forward To (continued)

continuing claims are back down to historically normal levels.

We'll finish the week with Friday's release of the October existing home sales report. Sales of existing homes are expected to decline by 1.6 percent during the month, following a much better-than-expected 9.4 percent increase in September. Nonetheless, if estimates hold, this report would represent the second-best month for existing home sales since 2006, highlighting the impressive rebound in sales since lockdowns ended. On a year-over-year basis, existing home sales are expected to show a 19.2 percent increase from October of 2019, demonstrating the strength of the housing market recovery. Looking forward, the major headwind for housing sales is expected to be a lack of available inventory. At the end of September, inventory was down more than 19 percent on a year-over-year basis. Given the low level of available inventory and the strong rise in home sales this year, the anticipated modest decline in sales in October is understandable and nothing to worry about for the time being.

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