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Weekly Market Performance – Markets Pull Back Amid COVID-19 Challenges

Posted by lplresearch

Market Blog

Index Performance – Week ending 6/26/20

S&P 500 Index: -2.9%

Dow Jones Industrial Average: -3.3%

Nasdaq Composite: -1.9%

Equities

US equities pulled back this week in the wake of increased COVID-19 cases in southern and western states, bank stress test restricting dividend payouts, and stretched equity valuations. Like their larger counterparts, small and mid-caps also gave back ground this week.

Many sectors were in the red this week. Energy, financials, industrials, and real estate were all down more than 2%. One bright spot this week was technology, which finished positive.

Prior to Wednesday, technology stocks were making new highs, with the Nasdaq up eight days in a row. Technology has been an area investors have rushed to during the crisis, as tech earnings and growth have remained relatively strong versus other areas of the economy. This run in technology has created a divergence in the performance of major US stock indexes this year, with the tech-heavy Nasdaq up 9% year to date versus the S&P 500 Index down 6%.

Given technology's strength, the Nasdaq again topped the S&P, Dow Jones Industrial Average, and Russell 2000 Index for the week. Moreover, large growth beat large value by over 2%.

International Stocks

The MSCI EAFE Index was lower and the MSCI Emerging Markets Index was up modestly this week. As per the last couple weeks, emerging markets outperformed developed international markets. European markets were lower this week, with the STOXX Europe 600 Index down 1%.

The Trump administration is considering adding $3.1 billion of new tariffs on exports from France, Germany, Spain, and the United Kingdom. This appears to be in retaliation, as the European Union is moving forward with a regional digital services tax, despite strong US reservations. Issues with trade have calmed down given challenges with the pandemic, but if trade issues persist, one could possibly expect increased market turbulence worldwide.

The Senate passed a bill placing sanctions on Chinese officials, businesses, and banks responsible in eroding Hong Kong's autonomy. The bill will now proceed to the House, where a bipartisan companion bill has also been introduced.

Fixed Income and Commodities

Investors remained focused on the reopening of the economy, even as several states are seeing a record increase in new COVID-19 cases. Concerns about the recovery were reflected in Treasuries, where long-dated yields were at their lowest levels of the month.

Another aspect for consideration is that the US economic recovery continues, with the majority of economic data coming in much better than expected. From the more than 10 million jobs beat in the May employment report to a huge beat in retail sales, the economy appears to be coming back faster than most expected.

"We are optimistic over the recent economic data, but we are nowhere near out of the woods yet," explained LPL Financial Senior Market Strategist Ryan Detrick. "The truth is this will take years to get back to some of the levels of output we were seeing back in February."

The July contracts for West Texas Intermediate crude oil (WTI) turned negative this week, down over 3%**.** Gold moved to 8 year highs, with the commodity up over 16% for the year. Despite the massive and growing federal deficit, the dollar continues to hold steady versus the euro.

Looking Ahead

Economic data for the shortened week begins with pending home sales Monday along with the Dallas Fed Index. On Tuesday, we get data on residential home prices via the S&P/Case-Shiller Index. Also, we get June's Chicago Purchasing Managers' Index (PMI) along with June consumer confidence numbers. Given the increase in COVID-19 cases, how confident consumers are is something we will be watching very closely.

Wednesday could prove an interesting day in the markets given the FOMC minutes and comments from Chairman Powell. Moreover, the ADP Employment Survey, Markit's Final Purchasing Managers' Index, Construction Spending, and ISM Manufacturing round out the day.

Thursday rounds out a week with quite a bit of data. Unemployment claims, nonfarm payrolls, and the official unemployment rate for June will be closely watched. The market is expecting another weekly decline in both initial and continuing claims. Moreover, we get June hourly earnings data, May's trade balance, and durable and factory orders.

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