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Weekly Market Performance – Equities Strong As Data Improves

Posted by lplresearch

Market Blog

Index Performance – Week ending 6/5/2020

S&P 500 Index: 4.9%

Dow Jones Industrial Average: 6.8%

Nasdaq Composite: 3.4%

Equities

The S&P 500 Index, Dow Jones Industrial Average, and Nasdaq were all higher, with the best performer being the Dow, while the Nasdaq lagged. Given the divergence between the Dow and Nasdaq, value/cyclical stocks continue to be the headliner, outperforming growth and the technology sector by 5%, an even wider margin compared with last week. Energy, financial, and industrial stocks benefitted, posting double-digit returns this week. Healthcare lagged, up only a fraction this week.

The small cap Russell 2000, up over 9%, and the mid-cap S&P 400 Index also enjoyed positive weeks.

The US Bureau of Labor Statistics released its monthly employment report this morning showing a surprise gain of 2.5 million jobs in May when economic forecasters were predicting steep job losses. The unemployment rate actually improved for the month, although the rate may be understated due to those being classified as employed but absent from work. This report could have very positive implications for the economy and markets going forward as it provides encouraging evidence that the job market may have bottomed. Read our full thoughts in our blog post from earlier today.

"The employment picture is improving much quicker than most expected, adding to overall optimism, as our country slowly continues to open back up," explained LPL Senior Market Strategist Ryan Detrick.

Amid ongoing COVID-19 disruptions, including potential risks associated with reopening the economy and escalating US-China tensions, US equities continue to maintain their strength. Since the S&P 500 bottomed over two months ago on March 23, the index has gained over 40% amid optimism over the economic recovery. This stretch was part of the best 50 day rallies ever recorded as discussed here. The technology-heavy Nasdaq has returned over 43% during the same period while international markets have followed suit.

International Stocks

The MSCI EAFE and the MSCI Emerging Markets Indexes continued their solid upward quests from the previous week with both indexes posting over 5% returns. Emerging markets outperformed the developed markets for the week.

The Caixin services Purchasing Managers' Index (PMI) spiked to a 10-year high in May as COVID-19 restrictions were eased, marking the first move to expansion levels since January and the largest monthly increase ever for China. Given the United States is a few months behind China in combating the pandemic, this could be another clue that better economic domestic data is on the way.

European markets were solidly higher, with the STOXX Europe 600 Index up over 5%. A bigger-than-expected ECB stimulus announcement and the market's increased preference for value-oriented investments helped fuel these markets. In addition, Germany is planning a $130 billion stimulus package, which was larger than initial estimates and helped propel German stocks higher.

Fixed Income and Commodities

Bond investors have grown more optimistic with the economic recovery, with the 10-year Treasury yield breaking out from its recent range to above 0.9%. Credit spreads tightened modestly as investors appear optimistic about the prospects of reopening the US economy and a potential pickup in economic activity.

Intermediate-term Treasury yields have only seen a modest advance in recent months despite the S&P 500's strong rally, but there are still signs that bond markets are seeing better times ahead. Credit spreads are narrowing and the yield curve has steepened, but the most important sign may be that bond markets have been functioning more smoothly as sectors that saw the largest variations between yield spreads, such as municipal bonds and high yield corporates, continue to move toward normalcy.

After oil's modest selloff last week, the July contracts for WTI crude continued higher, posting a gain of over 9% for the week aided by expectations that global producers will extend production cuts. Gold's rally paused this week but the commodity is still up over 10% for the year after the metal fell approximately -3%. In the wake of the global economic recovery, the US dollar has started to weaken vs. the euro.

Looking Ahead

Economic data for next week begins with the NFIB Small Business Index, wholesale inventories, and the JOLTS Job Openings report on Tuesday. Wednesday will bring the CPI, hourly earnings and the average workweek. Moreover, we get a look into the Treasury Budget and its asset purchases as well as the FOMC meeting, where interest rates are expected to remain unchanged.

On Thursday, we receive jobless claims with continued optimism of lower claims as well as continuing claims. Also, we get data on producer prices Thursday. To end the week, export and import prices are published along with the Michigan Sentiment.

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