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Weekly Market Performance – Markets Rally Ahead of Independence Day

Posted by lplresearch

Market Blog

Index Performance – As of 1:00 PM, 7/2/20

S&P 500 Index: 2.0%

Dow Jones Industrial Average: 0.9 %

Nasdaq Composite: 2.4 %

Equities

US equities delivered very strong gains during the shortened trading week. Like their larger counterparts, indexes representing both the small and mid-cap space were higher.

All major sectors were in the green this week; Real estate, consumer discretionary, and communication services were the top performers. Large cap growth outperformed value by more than 1% this week.

The S&P 500 Index gained 20% in the second quarter of 2020 for its best quarter since 1998. Granted, it was down 20% in the first quarter, the worst first quarter ever, but the bounce back has been impressive given the challenging economic environment. Moreover, all 11 sectors were higher for the first time since Q1 2019. Retailing, hardware, autos, and energy sectors led, while utilities, telecom services, and banks lagged.

International Stocks

Both the MSCI EAFE and the MSCI Emerging Markets Indexes were fractionally higher, with both indexes posting similar returns this week.

Moreover, European markets posted a solid week, with the STOXX Europe 600 Index up over 1.5%.

Tensions continue to simmer between Beijing and Washington, DC, with the United States reportedly preparing to unveil sanctions against Beijing related to human-rights abuses. In addition, a bill is being prepared to restrict Chinese companies from US capital markets if they engage in spying, human rights abuses, or support the Chinese military. These two actions could lead to more challenges as relations have soured over COVID-19 along with Beijing's crackdown on Hong Kong.

Fixed Income and Commodities

The US economy added 4.8 million jobs in June, well ahead of Bloomberg's consensus forecast at 3.2 million, while May's total was revised up by about 200,000 to 2.7 million. The unemployment rate declined to above 11%. Though a much smaller upside surprise than last month's report, the job market is clearly coming back stronger than most economists expected.

"The economic data continues to impress, but the bigger question now is could the spikes in COVID-19 put a damper on the recovery?" asked LPL Senior Market Strategist Ryan Detrick.

Although the US economic recovery has picked up, structural forces may limit the size of any move higher in interest rates in the months ahead. The pandemic-driven demand shock, the Federal Reserve (Fed), and disinflationary pressures may keep yields low for quite some time.

The August contract for West Texas Intermediate crude oil (WTI) enjoyed another positive week with the commodity up over 3%**.** This week, oil surpassed $40 a barrel, rebounding from the pandemic-driven decline of early March. Gold was up only a fraction this week; however, year to date, the precious metal has gained over 16%. Despite the massive and growing federal deficit, the dollar continues to hold steady versus the euro.

Looking Ahead

Economic data for the week starts with auto sales along with the final June Purchasing Managers' Index (PMI) composite Monday. Tuesday, data on job openings and labor turnover will be announced. Wednesday, the Fed releases data on consumer credit for May.

Thursday provides investors another anticipated weekly unemployment claims report, where progress has stalled over the past two weeks. We hope to see declines in both initial and continuing claims that would potentially signal further progress in the job market recovery even as COVID-19 cases in the United States have risen in recent weeks. Thursday and Friday conclude with wholesale inventories along with June's Producer Price Index.

We wish you a happy and safe Fourth of July.

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For a list of descriptions of the indexes referenced in this publication, please visit our website at lplresearch.com/definitions.

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