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Weekly Market Performance – Markets Steadfast Ahead of Increased COVID-19 Cases

Posted by lplresearch

Market Blog

Index Performance

S&P 500 Index: 1.8%

Dow Jones Industrial Average: 1.0%

Nasdaq Composite: 4.0%

Equities

US equities delivered positive results this week. In addition, indexes representing both the small and mid-cap space were lower. The Nasdaq, after being down approximately 25% in late- March, is up almost 18% this year and reached an all-time high Thursday.

With regard to sector performers, consumer discretionary and, given the Nasdaq's strength, technology and communication services were the leaders. Energy, real estate, healthcare, and industrials lagged the markets this week. Large cap growth outperformed value by almost 2% this week.

Treasury Secretary Mnuchin stated Thursday that Congress and the White House will look to pass another coronavirus relief bill by the end of the month. He noted that the White House supports another round of stimulus checks, however he did not provide any details about who might qualify in receiving support.

Dr. Anthony Fauci, the United States' leading infectious disease expert, said on a recent podcast that states with rapidly expanding coronavirus outbreaks should seriously consider "shutting down". These comments come after the nation's coronavirus cases topped 3 million on Wednesday with daily infections in California, Texas and Florida all hitting new record highs. How this virus affects these three populous states could play a role in our economic recovery efforts.

In addition to the United States' issues with a potential second wave, various international regions, such as Hong Kong and Tokyo, reported record spikes in new infections. Moreover, Melbourne recently locked down again.

International Stocks

Both the MSCI EAFE and the MSCI Emerging Markets Indexes were higher this week, with the emerging market index outperforming the developed market index by almost 4%. Moreover, European markets gave back this week, with the STOXX Europe 600 Index down over 1%.

The European markets are weighing their COVID-19 data and its impact on their nation's economic recoveries. The United Kingdom's Finance Minister Rishi Sunak announced this week a back-to-work bonus initiative for businesses to return furloughed employees back to work. He even floated a proposal for an early-week 50% restaurant discount for all its citizens through the month of August.

In the wake of COVID-19 along with tensions between Beijing and Washington, China's equities enjoyed a strong week. The Shanghai composite surpassed 7% for the week. A reason for this due to a China state-controlled media article encouraging its nation's citizens to buy Chinese equities. There is some concern of a potential bust in Chinese equities, as what happened in 2015, especially as new traders enter the marketplace. However, margin trading, which was seen as a major culprit to 2015's problems, is reported to be more modest now than it was then.

Fixed Income and Commodities

The Bloomberg Barclays Aggregate Bond Index returned a solid 2.9% in the second quarter of this year, its eighth consecutive quarter of gains and best two-year return since 2010. Economically sensitive bond sectors led, but most are still in negative territory year to date. The index is up slightly more than 17% over those eight quarters, the best two-year stretch since 2010.

Mortgage-backed securities (MBS) have lagged in the investment-grade space over several lookback periods; the preference for Treasuries during periods of volatility has shown its value over the last several years.

Filings for initial jobless claims totaled 1.31 million for the week ending July 4. This was below Bloomberg's consensus forecast of 1.38 million and down from a revised 1.41 million for the prior week. Reported with a one-week lag, the continuing claims number declined from a revised 18.8 million to 18.1 million. Per the US Bureau of Labor Statistics, while unemployment claims filings have dropped 14 straight weeks from a peak near 7 million in late March, the gradual reduction in recent weeks and still very high number of unemployed point to a long road ahead for the US job market to reach full employment.

The August contract for West Texas Intermediate crude oil (WTI) gave back over 2% this week. Gold was higher this week, up over 1%. Year to date, the precious metal has gained over 19%. The dollar continues to hold its own versus the euro this week.

Looking Ahead

We are heading into the start of earning season, with many financials and industrials on tap to report next week. Economic data for the week starts with the Treasury Budget Monday. We should get a good idea of where the Federal Reserve (Fed) stands on its asset purchases. Tuesday, data on June's Consumer Price Index (CPI) and National Federation of Independent Business Small Business Index, along with last month's hourly earnings and workweek stats will be announced.

Wednesday could prove to be a market moving day when the Federal Reserve's Beige Book is announced. Moreover, data is announced concerning the trade deficit, capacity utilization, and manufacturing production.

Thursday provides investors another anticipated weekly unemployment claims report, where progress has stalled over the past couple 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.

June's retail sales are announced Thursday. Given May's retail sales upside surprise and now with an increase in COVID-19 cases, June's report should prove interesting to market participants. Friday concludes with housing starts, building permits, along with Michigan Sentiment.

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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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