

Weekly Market Performance – Moving Markets

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Market Blog

Index Performance

S&P 500 Index: 3.3%

Dow Jones Industrial Average: 2.6%

Nasdaq Composite: 3.4%

Equities

Markets continued their trek higher, with the Nasdaq and its technology-oriented names leading the move forward. All sectors were in the green with the exception of energy and utilities. Small and mid-cap equities had positive weeks, while large cap growth remained the leader versus value.

With less than 20 S&P 500 companies left to report results, S&P 500 earnings for the second quarter are tracking to a more than 30% year-over-year decline, an impressive 13 percentage points above estimates when earnings season began. Healthcare, technology, and utilities have produced positive earnings growth, while the entire earnings decline has been driven by four sectors: consumer discretionary, energy, financials, and industrials. The earnings beat rate (over 80%) and average positive surprise (over 20%) are the highest since FactSet began tracking these statistics in 2008. Forward 12 months' estimates have risen 1.5% since July 1. This could be an indication that second-half estimates may be too low.

The S&P 500 closed at a new all-time high for the fifth consecutive day Thursday, the longest such streak since six in a row in January 2018. With one trading day to go, the S&P 500 is up 6.5% in August, which would be the best August since 1986. Additionally, 15 days this month have closed green,

the most for any month this year and the most for any August since 2003. Finally, this is the first August in history to have two separate six-day win streaks.

The Dow Jones Industrials, being down for a majority of the year, has rebounded to be in the green.

“What a week! The S&P 500 Index gained every single day and the Dow actually joined the party, turning positive on the year,” explained LPL Financial CIO Burt White.

International Stocks

International stocks finished broadly higher this week. Both the developed international and emerging market indexes, as denoted by MSCI EAFE and MSCI EM, posted positive returns. The Europe Stoxx 600 index along with China A shares had positive weeks as well.

Amid strength from US and Chinese equities as well as modest improvement in Europe, the MSCI All Country World Index set a new all-time high Wednesday, just 109 trading days after its March low. While much of the discussion in equity markets has been around the strength of the US market, risk appetite for global equities has also risen despite sluggish economic growth.

Fixed Income, Currencies, and Commodities

Bond markets suffered losses this week as anticipation of a changing Federal Reserve (Fed) policy framework lifted bond yields. Spread sectors such as high-yield corporates and bank loans outperformed, while Treasuries were the laggard. At the central bank virtual summit in Jackson Hole, WY, Fed Chair Jerome Powell outlined a new approach that seeks to average inflation of 2% over time, a decision that implies allowing price pressures to overshoot the Fed’s previous target. Inflation struggled to reach that level during the previous expansion. The announcement sent yields on the long end of the yield curve sharply higher, steepening the yield curve—measured by the spread between the 10- and 2-year Treasury yield—to its highest level since early June.

Commodities were broadly higher this week, led by gains for natural gas and WTI crude oil as Hurricane Laura made landfall on the Gulf Coast, causing many refineries in the region to shut down. Precious metals resumed their trend higher after consolidating their meteoric rise, with gold and silver up 1% and 3%, respectively for the week.

The US dollar resumed its decline this week vs. the euro. Moreover, the US dollar posted its worst day in nearly 4 months on August 27 after Fed Chair Powell’s comments.

US Economic Data Recap

In the early stages of the recovery, we have received a mix of positive and negative economic data. This week was no different, with a massive surge in new home sales of over 900,000, the highest level since December 2006 (Source: US Census Bureau), beating the Bloomberg consensus estimates of over 750,000. However, we'll have to take the good with the bad, as the Conference Board's Consumer Confidence Index fell to under 85 from over 91 likely capturing the rise in COVID-19 cases and hospitalizations last month, as well as the expiration of enhanced unemployment benefits on July 31. We continue to see modest improvement in the balance of economic data, but we emphasize that a return to normalcy will not be immediate.

Initial jobless claims came in at 1 million for the week ending August 22, roughly in line with expectations and down 100,000 from the prior week (source: US Department of Labor). Continuing claims for the week ending August 15 (they are reported with a one-week lag) were marginally above expectations at 14.5 million, but down over 200,000 from the prior week. Still-high claims, elevated unemployment, and fading stimulus support the case for more stimulus and suggest a gradual recovery.

The Citi Economic Surprise Indexes for the United States and the Eurozone remain near record 17-year highs, indicating that the respective economic recoveries continue to surprise to the upside. This data is a positive earnings signal and suggests these economies, along with help from a potential vaccine, may fully recover lost output in 2021. This would be earlier than many economists have anticipated.

Looking Ahead

Next week, six S&P 500 companies are scheduled to report earnings, as we conclude second quarter earnings season.

- Economic data on Tuesday begins with July construction spending from the Census Bureau, along with the Institute for Supply Management (ISM) Manufacturing Index.
- Wednesday is all about July durable and factory orders reports from the US Census Bureau. The Fed's Beige Book will be published as well.
- Thursday provides investors another anticipated weekly unemployment initial claims report. We also get the opportunity to view the US Bureau of Labor's Q2 productivity and unit labor cost report. In addition, July export/import data is released along with August's Purchasing Managers' Index (PMI). To conclude, August car sales data will be reported on Thursday.
- We wrap up the week Friday with August manufacturing and the August jobs report, which includes data on job growth, wages, and the unemployment rate.

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