Weekly Market Performance – Markets Reaching Milestones Amid COVID-19

Posted by lplresearch

Market Blog

Index Performance

S&P 500 Index: .7%

Dow Jones Industrial Average: 0%

Nasdaq Composite: 2.7%

Equities

Markets were mostly higher for the week, with the Nasdaq leading the move forward. The technology, communication services, and consumer discretionary sectors paced the gains, while most sectors gave back some ground on the week. Small and mid-cap equities had a lackluster week while growth remained the leader vs. value.

The S&P 500 Index finally made a new high for the first time since February 19. This officially makes the bear market earlier this year the quickest bear market ever (just over a month) and the subsequent recovery of five months one of the fastest ever. The good news is stock returns after new highs can be quite strong, as we discussed on the LPL Research blog, 5 Charts To See With Stocks At New Highs.

Retail earnings this week, in the midst of COVID-19 and current employment challenges, were very well received. A strong housing market and booming e-commerce offerings played significant roles in better-than-expected results.

Treasury Secretary Steve Mnuchin said Tuesday that stimulus talks are at a stalemate. However, an appetite for a deal remains high and House Speaker Nancy Pelosi might resume negotiations this week when she reconvenes the House of Representatives to consider legislation blocking the administration's plan for overhauling the Postal Service.

Speaker Pelosi told Politico that she would be willing to meet Republicans halfway on a stimulus proposal and expressed her eagerness to get a package through Congress before lawmakers consider legislation to keep Washington running beyond October 1. Speaker Pelosi's spokesman later clarified that she did not mean cutting the bill in half. The House-passed bill was $3.4 trillion. Market participants continue to expect some bipartisan compromise in the $1.5 trillion range.

International Stocks

International stocks finished broadly lower this week. Both the developed international as well as emerging market indexes, as denoted by MSCI EAFE and MSCI EM, posted a negative return. China A shares had a positive week, reaching a 4.5-year high.

US-China trade talks, aimed at reviewing the progress at the six-month mark of the phase one agreement, appeared to hit a roadblock amid conflicting reports about an agreement to meet. The two nations remain at odds concerning Hong Kong's autonomy, China's treatment of ethnic minorities, Beijing's military expansion in the South China Sea, as well as a US crackdown on Chinese tech companies and push to lock Huawei out of 5G markets.

The IHS Markit Eurozone flash Purchasing Managers' Indexes (PMI) for August showed loss of momentum across the private sector, with weakness concentrated in the services sector. Markit cited renewed restrictions as virus cases rose in Europe as a primary reason for the slowing momentum.

As countries re-opened, leading economic indexes (LEI) across the globe improved month-over-month in May, June, and July. The LEI for China is actually back to its pre-pandemic level, while the LEIs of many other countries have snapped back. This is encouraging; however, with elevated COVID-19 cases in countries such as the United States, Brazil, and India, cases creeping higher in others like in Europe and Australia, along with widespread high unemployment, it's reasonable to expect some choppiness to the global economic recovery until a vaccine is available.

Fixed Income, Currencies, and Commodities

It was a mixed week for bond markets, characterized by falling Treasury yields and underperformance from spread sectors. The long end of the Treasury yield curve outperformed as yields contracted following their sharp rise during last week's historic auction. Preferred stocks were a standout performer to the upside despite weakness in bank stocks. Investors were focused on the release of the minutes from the Federal Reserve, which revealed concern over the efficacy of yield curve control with several members expressing that yield curve caps would provide only modest benefits in the current environment.

Commodities were mostly higher on the week, highlighted by copper breaking out to a two-year high. The consolidation in precious metals continued as the US dollar has rebounded from oversold conditions, though we reiterate our positive view on precious metals going forward and expect the soft dollar environment to continue. WTI crude oil remains stuck trading in the low $40s, a range it has maintained throughout the third quarter so far, while natural gas is now down 14% from its August high after contracting further this week.

The 10-year US Treasury yield has hardly moved during the strong equity rally, although there are increasing signs that bond investors may expect inflation to normalize. A weak Treasury auction last week, strong gold prices, and rising Treasury-implied breakeven inflation rates all signal that disinflation fears have subsided. Inflation remains elusive, however, and markets may simply be pointing to inflation levels returning to normal. For more on yields and inflation, read this LPL Research blog, Low Treasury Yields Present a Challenge as Inflation Expectations Rise.

US Economic Data Recap

July housing starts came in well above expectations at approximately 1.5 million, while July building permits beat expectations nicely as well (source: US Census Bureau). These results came on the heels of the August National Association of Home Builders (NAHB) Housing Market Index (HMI) hitting its highest level since 1998 on August 17.

Filings for initial jobless claims rose to over 1 million for the week ending August 15, about 140,000 above the prior week, and disappointing expectations they would be below 1 million. However, continuing claims at 14.8 million delivered a positive surprise for the week ending August 8 (they are reported with a one-week lag), falling more than 600,000 week over week (source: US Bureau of Labor Statistics). Given this, high levels of claims, elevated unemployment, and fading stimulus set up a gradual recovery in the months ahead.

Looking Ahead

Next week, 18 S&P 500 companies are scheduled to report earnings, as we conclude second quarter earnings season.

- Economic data on Tuesday begins with July building permits and new home sales, June's S&P/Case-Schiller Home Price Index, and August's Consumer Confidence.

- Wednesday is all about July durable orders from the US Census Bureau.
- Thursday provides investors another anticipated weekly unemployment initial claims report. Also, we have a second preliminary second quarter gross domestic product report and July home sales.
- We wrap up the week Friday with the personal consumption expenditure, personal income, and wholesale inventories for July. In addition, we get the Michigan sentiment number for August.

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