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Weekly Market Performance – October 30, 2020 – The Bears Came Out For Halloween

Posted by lplresearch

Market Blog

Index Performance

US and International Equities

An increase in COVID-19 cases in the United States and Europe and what they could mean for the economic outlook has caused turbulence in this week's markets. Moreover, Washington gridlock over much-needed stimulus along with the uncertainty surrounding next week's election haven't helped market sentiment. In addition, investor takeaways were mixed concerning major tech earnings results this week, even though earnings results for the third quarter have continued to come in well above expectations.

All major US markets gave back ground this week. The biggest detractors were information technology, industrials, and energy, followed closely by financials, health care, and consumer discretionary.

The overseas markets also finished lower. Emerging market equities, as denoted by the MSCI Emerging Markets (EM), outperformed their developed counterparts (MSCI EAFE) by 2 percentage points, even though the MSCI EM finished lower for the week. The emerging markets, led by China, have outperformed international developed markets for the year.

Fixed Income, Currencies, and Commodities

Bonds, as represented by the Bloomberg Barclays US Aggregate, finished flat while most bond sectors finished flat to lower this week. Safe-haven buying was evident as US Treasury bonds rose and the 10-year yield fell.

Commodities posted mixed results for the week. Oil and natural gas moved in opposite directions, with natural gas—up over 10%–one of the only sectors to finish in the green. Gold, silver, and copper all finished the week lower.

US and International Economic Data Recap

Third quarter gross domestic product (GDP) expanded at an annualized rate of over 33%, which was ahead of Bloomberg consensus expectations for 32%. This growth was the largest quarter-over-quarter gain since WWII and followed the sharpest quarter-over-quarter decline during the same time period. The strong rebound, paced by consumer spending, left GDP only 3.5% shy of pre-pandemic levels.

In another positive sign for the economic rebound, unemployment filings have declined for a third consecutive week. The continuing decline in jobless claims is much-welcomed as COVID-19 cases in the United States and around the world have continued to climb in recent weeks. Over 750,000 Americans filed for unemployment last week, less than Bloomberg expectations of 770,000. Moreover, continuing claims for unemployment declined to 7.75 million, below the Bloomberg consensus for 7.77 million.

Global trade volumes have risen solidly, reflecting the strength of the global economic recovery as well as suggesting the global recession probably ended this summer. According to data from the CPB Netherlands Bureau, world trade volumes rose by 2.5% in August, adding to the approximately 8% and 5% increases in June and July, leaving trade volumes just over 3% below their December 2019 level. Retail sales have been a big part of the global recovery story.

Europe saw a stronger growth surge than the United States in the third quarter, with GDP spiking over 12% (not annualized) quarter over quarter, but falling over 4% year over year. That pace was well ahead of Bloomberg's consensus forecast over 9%. Recapturing so much lost economic output in a short period as Europe's economies opened is welcomed,; however the risk of fourth quarter contraction in the Eurozone has risen with renewed COVID-19 restrictions.

Looking Ahead

Next week, the following economic data is slated to be released:

- On Monday, we get October's ISM manufacturing data along with September's construction spending report from the US Commerce Department.
- On Tuesday, September's Durable and Factory orders are published.
- Wednesday is all about September's trade balance along with October's ISM Non-Manufacturing report.

- Thursday provides investors with an FOMC meeting, as well as another weekly initial unemployment claims report. In addition, we get data on Q3 productivity and unit labor costs.
- We end the week with October's payrolls, including average hourly earnings, and the unemployment rate.

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