

Market Week: August 17, 2020

The Markets (as of market close August 14, 2020)

Stocks started the week mostly higher as investors anticipated additional virus stimulus relief. Value stocks, industrials, and energy shares outperformed mega-cap tech stocks last Monday. Of the benchmark indexes listed here, only the Nasdaq lost value. The S&P 500 closed the day 0.3% higher, marking the seventh consecutive day of positive returns. The Dow vaulted 1.3%, followed by the Russell 2000, which gained 1.0%. Treasury yields, crude oil, gold, and the dollar all climbed by the end of trading last Monday.

Tech stocks lost value again last Tuesday, dragging the major indexes down. Sectors including travel, automakers, financials, industrials, and energy posted solid gains. The Nasdaq fell the hardest, losing 1.7% on the day, followed by the S&P 500 (-0.8%), the Russell 2000 (-0.6%), and the Dow (-0.4%). The Global Dow (0.8%) advanced as did the dollar and Treasury yields. Crude oil prices fell by nearly 1.0%.

The S&P 500 continued to push higher last Wednesday, reaching a record high at one point, only to drop back by the end of the day. Nevertheless, large caps fared well as the S&P 500 closed up 1.4% while the Dow finished ahead 1.1%. Tech stocks rebounded, driving the Nasdaq up 2.1%. The small caps of the Russell 2000 closed 0.5% higher, and the Global Dow rose 1.1%.

For the first time in quite a while, weekly unemployment claims were below 1 million. That news wasn't enough to motivate investors, as stocks tumbled last Thursday. Only the Nasdaq pushed slightly higher, gaining 0.3% on the day. The Dow dropped 0.3%, both the S&P 500 and the Russell 2000 fell 0.2%, and the Global Dow dipped 0.5%. Treasury yields spiked; crude oil and the dollar retreated. Energy, financials, real estate, and industrials had a rough day, while mega-cap and technology stocks fared well.

Equities closed last Friday on a sour note, tainting what was otherwise a solid week in the market. The S&P 500 fell less than 0.1% after nearing a record high during the day. The Dow inched ahead 0.1%, while the Nasdaq, the Russell 2000, and the Global Dow lost value. Utilities and health care led the decline while energy shares advanced. Several European nations and New Zealand have reported spikes in the number of reported virus cases. Investors are getting fewer positive vibes about a new round of virus-related stimulus coming before the end of the month. It appears that any financial help from Congress will have to wait until September.

Despite last Friday's downturn, the market enjoyed another positive week of growth. Each of the benchmark indexes listed here posted gains, with the Dow and the Global Dow leading the way. Value stocks and industrials outperformed mega-techs for the week. Treasury yields surged as prices plunged, as consumer prices continued to climb following July gains in the Consumer Price Index, retail sales, and producer prices.

Crude oil prices ended the week at \$42.18 per barrel by late Friday afternoon, up from the prior week's price of \$41.45. The price of gold (COMEX) dipped last week after nearly two months of weekly gains. Last Friday saw the price of gold close at \$1,954.10, down from the prior week's price of \$2,041.30. The national average retail price for regular gasoline was \$2.166 per gallon on August 17, \$0.010 lower than the prior week's price and \$0.458 less than a year ago.



Key Dates/Data Releases

8/18: Housing starts

8/21: Existing home sales

Stock Market Indexes

| Market/Index | 2019 Close | Prior Week | As of 8/14 | Weekly Change | YTD Change |
|-------------------------------|-------------|-------------|-------------|---------------|------------|
| DJIA | 28,538.44 | 27,433.48 | 27,931.02 | 1.81% | -2.13% |
| Nasdaq | 8,972.60 | 11,010.98 | 11,019.30 | 0.08% | 22.81% |
| S&P 500 | 3,230.78 | 3,351.28 | 3,372.85 | 0.64% | 4.40% |
| Russell 2000 | 1,668.47 | 1,569.18 | 1,577.88 | 0.55% | -5.43% |
| Global Dow | 3,251.24 | 2,992.30 | 3,049.45 | 1.91% | -6.21% |
| Fed. Funds target rate | 1.50%-1.75% | 0.00%-0.25% | 0.00%-0.25% | 0 bps | -150 bps |
| 10-year Treasuries | 1.91% | 0.56% | 0.70% | 14 bps | -121 bps |

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Week's Economic News

- As more businesses reopen and the economy picks up steam, inflation is beginning to advance. Prices consumers pay for goods and services, as measured by the Consumer Price Index, increased 0.6% in July, the same rate seen in June. For the 12 months ended in July, the CPI is up 1.0%. Gas prices continued to rise in July following June's sharp increase, climbing 5.6% for the month. However, gas prices are down 20.3% for the 12 months ended in July. Other areas seeing a price increase in July include used cars and trucks (2.3%), apparel (1.1%), and transportation services (3.6%). Food prices fell 0.4% last month, with food prices at home dropping 1.1%. The index less food and energy rose 0.6% in July, its largest increase since January 1991.
- According to the latest report from the Federal Reserve, industrial production advanced 3.0% in July after increasing 5.7% the previous month. Despite the summer increases, industrial production is 8.4% below its pre-pandemic February level. Manufacturing output continued to improve in July, rising 3.4%. Most major industries posted increases, though they were much smaller in magnitude than the advances recorded in June. The largest gain in July, 28.3%, was registered by motor vehicles and parts. Factory production elsewhere advanced 1.6%. Mining production rose 0.8% after decreasing for five consecutive months. The output of utilities increased 3.3%, as unusually warm temperatures increased the demand for air conditioning. The level of total industrial production was 8.2% lower in July than it was a year earlier.
- July saw producer prices jump 0.6% following a 0.2% decline in June. The July increase is the largest rise since a 0.7% advance in October 2018. Prices for both services (0.5%) and goods (0.8%) rose higher last month. For the 12 months ended in July, producer prices are down 0.4%. A 5.3% jump in energy prices led the July increase in goods prices. Gasoline prices, in particular, surged 10.1% for the month. The index for goods less foods and energy moved up 0.3%. Pushing prices for services higher was a 0.8% increase in trade prices.
- Retail sales increased 1.2% in July after advancing 8.4% in June. Retail sales are 2.7% ahead of the July 2019 rate. Businesses enjoying an uptick in sales last month were electronics and appliance stores (22.9%), gasoline stations (6.2%), bars and restaurants (5.0%), and clothing stores (5.7%). Internet sales advanced marginally, up 0.7%.
- The Treasury budget for July came in at \$63 billion, lower than expected. The budget deficit for June was a whopping \$864 billion. Government expenditures in July were \$626 billion, the bulk of which came from Health and Human Services expenditures (\$170 billion). Nevertheless, the total deficit through the first 10 months of the fiscal year is \$2.81 trillion — an increase of 224% from the same period in fiscal year 2019. Year-over-year, government spending has increased 51%, while receipts have remained relatively unchanged.
- U.S. import prices increased 0.7% in July following a 1.4% increase in June. Higher fuel prices led the monthly advances in import prices for both June and July. Despite the recent increases, import prices have declined 3.3% over the past year. Export prices advanced 0.8% in July after climbing 1.2% the previous month.
- According to the latest Job Openings and Labor Turnover report, June saw the number of job openings increase by 518,000 to 5.9 million. Job openings rose in a number of industries, with the largest increases in accommodation and food services (198,000); other services (69,000); and arts, entertainment, and recreation (34,000). Hires decreased to 6.7 million in June, still the second highest

level in the history of the survey, second only to May's tally. Total separations increased to 4.8 million. Over the 12 months ended in June, hires totaled 70.2 million and separations totaled 79.1 million, yielding a net employment loss of 8.9 million.

- For the week ended August 8, there were 963,000 new claims for unemployment insurance, a decrease of 228,000 from the previous week's level, which was revised up by 5,000. According to the Department of Labor, the advance rate for insured unemployment claims was 10.6% for the week ended August 1, a decrease of 0.4 percentage point from the prior week's rate. The advance number of those receiving unemployment insurance benefits during the week ended August 1 was 15,486,000, a decrease of 604,000 from the prior week's level, which was revised down by 17,000.

Eye on the Week Ahead

This week's economic data focuses on the housing market for July. Existing home sales surged in June, climbing over 20% from May's totals. July's figures may not be so robust, but should continue the positive trend in home sales.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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