Weekly Market Matters

S&P 500 Falls Back into Correction Territory as COVID-19 Worries Jump and Social Unrest Increases

- The week started off strong as U.S. stock markets rose while volatility declined, but the latter part of the week saw markets dropping and volatility increasing, mostly due to renewed COVID-19 worries
- The very-concentrated and very-mega-cap DJIA dropped 3.3%, followed closely by the 2.9% drop in the S&P 500, the 2.8% decline of the smaller-cap Russell 2000 and the 1.9% decline of the tech-heavy NASDAQ
- Of the 11 S&P 500 sectors, the Energy, Financials and Communications sectors were hardest hit, dropping 6.5%, 5.3% and 5.2%, respectively
- The week's news was dominated by social unrest in the U.S. and increasing worries about COVID-19's resurgence, with COVID-19 impacting investor sentiment more
- Macroeconomic data was mixed, as new home sales jumped over 16%, existing home sales dropped, and personal spending jumped over 8%
- Weekly jobless claims dropped by about 60,000, but it's still a worrying 1.5 million, above consensus estimates by over 250,000
- The 2-year Treasury yield declined to 0.16% and the 10-year yield came to rest at 0.65%
- WTI crude fell almost 4% to just over $38/barrel

Weekly Market Update – June 26, 2020

	Close	Week	YTD
DJIA	25,016	-3.30%	-12.3%
S&P 500	3,009	-2.9%	-6.9%
NASDAQ	9,757	-1.9%	8.7%
Russell 2000	1,379	-2.8%	-17.3%
MSCI EAFE	1,780	-1.3%	-12.6%
Bond Index*	2,357.01	0.02%	5.93%
10-Year Treasury	0.65%	0.00%	-1.3%

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

S&P 500 Moves Back into Correction Territory

Stock markets traded within a relatively small range this week, as volatility trended down for the first couple of days before moving north for the remainder of the week, ultimately coming to rest about where it started the week.

By the time the week was over, U.S. stock markets had returned last week's gains and then some, with growth stocks outperforming value stocks and the technology-heavy NASDAQ performing better than the other major U.S. indices by a decent amount.

While the S&P 500 is still inches above that psychological 3,000-point barrier, this week's decline did technically put the S&P 500 into correction territory – defined as being down by 10% or more from its peak, which happened in February.

COVID-19 Worries Intensify

Most of the news on the week focused on social unrest throughout the country as well as renewed threats from COVID-19. It did not appear that the former impacted markets at all, but the latter sure did, as investors are worried about additional lockdowns and further economic implications. Investors were trying to determine what Dr. Fauci's warning of a "disturbing surge" in COVID-19 cases might mean, while also digesting warnings from various state Governors.

Investors received a lot of news about the housing sector this week and the data was mixed – which might actually be considered a positive. On the one hand, existing home sales were down for the third month in a row, but on the other hand, new home sales were up in May. But given the stated margin of error surrounding new home sales, many are expecting that number to be revised significantly down in the coming months.

In addition, the notion of another U.S. stimulus package, as well as a possible extension of unemployment benefits, was received with guarded optimism.

There was a lot more chatter about trade this week and most of it can be considered positive. Early in the week President Trump tweeted that the trade pact with China remains "fully intact." But then rumors that the U.S. was thinking about imposing tariffs on over $3 billion in UK and EU goods gave investors reason to pause.

Housing Markets Impacted Significantly

The National Association of Realtors released May real estate data on Monday and reported that:

- Existing-home sales dropped 9.7% month over month in May, which is the third consecutive month of declines
- Existing-home sales fell a staggering 26.6% from a year ago, as all four major regions of the U.S. recorded declines
- 58% of homes sold were on the market for less than a month
- Properties typically stayed on the market for 26 days, the same as a year ago
- First-time home shoppers comprised 34% of sales, up from 32% a year earlier
- Foreclosures and short sales were 3% of sales, up from 2% a year ago

More Housing Data Challenges

On Tuesday, the U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced the following new residential sales statistics for May 2020:

- Sales of new single-family houses in May 2020 were at a seasonally adjusted annual rate of 676,000
- This is 16.6% (±15.5%) above the revised April rate of 580,000 and is 12.7% (±23.5%) above the May 2019 estimate of 600,000
- The median sales price of new houses sold in May 2020 was $317,900
- The average sales price was $368,800
- The seasonally adjusted estimate of new houses for sale at the end of May was 318,000, which represents a supply of 5.6 months
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One should pay particular attention to the margin of error, however, as it is significant. For example, the statement that "12.7% percent (±23.5%)" means that the actual percent change that is likely to have occurred falls somewhere between -10.8% and +36.2%.

Consumer Sentiment Drops

The University of Michigan released its interpretation of the Consumer Sentiment Index and had this to say:

“Consumer sentiment slipped in the last half of June, although it still recorded its second monthly gain over the April low. While most consumers believe that economic conditions could hardly worsen from the recent shutdown of the national economy, prospective growth in the economy is more closely tied to progress against the coronavirus. The early reopening of the economy has undoubtedly restored jobs and incomes, but it has come at the probable cost of an uptick in the spread of the virus.”

*Sources: **cboe.com; census.gov; nar.realtor; data.sca.isr.umich.edu; commerce.gov; standardandpoors.com; nyse.com; msci.com; nasdaq.com; dowjones.com; morningstar.com; bloomberg.com***