

Market Week: May 18, 2020



The Markets (as of market close May 15, 2020)

Stocks opened the week with mixed returns. The S&P 500 stayed level, the Dow fell by almost half a point, and the Nasdaq finished the day up three-quarters of a percent. Crude oil prices dropped by nearly one percent. Positive news came from New York last Monday as Governor Cuomo indicated some businesses would be able to reopen on a regional basis, as the state reported the lowest number of COVID-19-related deaths since March.

The major indexes tumbled last Tuesday, halting a multiday win streak for the Nasdaq. The Dow lost over 450 points, or 1.89%, its largest one-day percentage drop since May 1. Both the S&P 500 and the Nasdaq fell more than 2.0%. Grim news on the COVID-19 front seems to have driven the market. Several countries that had begun to ease restrictions saw a spike in new virus cases reported. Wuhan, the Chinese city that reported the first cases of COVID-19, had people test positive for the first time in more than a month. Finally, Dr. Anthony Fauci, head of the U.S. National Institute of Allergy and Infectious Diseases, in testimony before the Senate, warned that reopening the nation too soon and without caution and expanded testing could lead to "needless suffering and death."

Stocks were sent reeling last Wednesday following Federal Reserve Chair Jerome Powell's warning against the likelihood of a rapid economic recovery. Powell also suggested that Congress enact further economic stimulus to ease the risk of long-lasting economic damage as the country tries to recover from the pandemic. Each of the major benchmark indexes listed here plunged deeper into the red by the end of the day's trading. The Russell 2000 dropped 3.3%, and the Dow slid close to 2.2%. The Nasdaq, which had surpassed its year-end value following a series of daily gains, fell back into negative territory for the year.

Thursday saw nearly 3 million new claims for unemployment insurance, bringing the total of those receiving unemployment insurance benefits to almost 23 million. Despite that report, investors returned to the market, pushing the major indexes higher. The Dow gained over 377 points, or 1.63%, the S&P 500 pushed ahead by 1.15%, and the Nasdaq rose by nearly 1.0%. Stocks of some major banks surged Thursday, driving the large-cap benchmarks.

Stocks closed Friday higher, but not enough to recover from midweek losses, ultimately ending last week's trading on the downside. Last Friday was full of conflicting information for investors to digest. Retail sales posted historic losses, the trade war with China was rekindled, and the House of Representatives was set to vote on an additional \$3 trillion COVID-19 relief package. By the close of trading last Friday, each of the benchmark indexes listed here lost value, led by the small-cap Russell 2000, which dropped nearly 5.5%. The Global Dow fell by more than 3.3%, followed by the large caps of the Dow and the S&P 500. The Nasdaq ended the week down a little more than 1.0%, but not enough to pull it below its year-end value. The other major indexes remain well below their 2019 closing marks, however.

With production curtailed, crude oil prices are steadily rising. Prices closed last week at \$29.71 per barrel by late Friday afternoon, up from the prior week's price of \$24.81. The price of gold (COMEX) continued to climb last week, closing at \$1,752.50 by late Friday afternoon, up from the prior week's price of \$1,708.00. The national average retail regular gasoline price was \$1.851 per gallon on May 11, 2020, \$0.062 higher than the prior week's price but \$1.015 less than a year ago.

Key Dates/Data Releases

5/19: Housing starts

5/21: Existing home sales

Stock Market Indexes

Market/Index	2019 Close	Prior Week	As of 5/15	Weekly Change	YTD Change
DJIA	28,538.44	24,331.32	23,685.42	-2.65%	-17.01%
Nasdaq	8,972.60	9,121.32	9,014.56	-1.17%	0.47%
S&P 500	3,230.78	2,929.80	2,863.70	-2.26%	-11.36%
Russell 2000	1,668.47	1,329.64	1,256.99	-5.46%	-24.66%
Global Dow	3,251.24	2,637.25	2,549.34	-3.33%	-21.59%
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%	0.68%	0.64%	-4 bps	-127 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

- Inflationary pressures at the consumer level are muted, impacted by plunging gasoline prices. The Consumer Price Index fell 0.8% in April, the largest monthly decline since December 2008. Over the last 12 months ended in April, consumer prices are up a scant 0.3%, the smallest 12-month increase since October 2015. A 20.6% drop in gasoline prices was the largest contributor to the monthly decrease in the CPI, but prices for apparel, motor vehicle insurance, airline fares, and lodging away from home all fell sharply as well. Conversely, prices for food rose in April, with food at home posting its largest monthly increase since February 1974.
- Sales at the retail level plummeted 16.4% in April from March, and 21.6% below April 2019. Retail trade sales were down 15.1% in April and 17.8% below last year. Clothing and clothing accessories stores saw sales fall 89.3% while online retailers enjoyed a spike in sales of 21.6%.
- Not surprisingly, prices at the producer level also declined in April, falling 1.3% from the previous month. This is the largest decrease since the index began in December 2009. For the 12 months ended in April, producer prices are down 1.2%, the biggest drop since the 12 months ended in November 2015. In April, a 3.3% plunge in prices for goods accounted for much of the overall price decrease. Prices for services fell 0.2%. A 56.6% reduction in gasoline prices accounted for two-thirds of the decline in the prices for goods.
- The federal government deficit soared to \$737.9 billion in April, far ahead of the \$119 billion monthly deficit for March. According to the report from the Federal Reserve, in April, outlays totaled \$980 billion, an increase of \$604 billion from April 2019, largely due to the release of assistance related to COVID-19 including: Economic Impact Payments to individuals and families (\$217 billion); Coronavirus Relief Fund payments to state, territorial, local, and tribal governments (\$142 billion); increases in Medicare and other Department of Health and Human Services programs (\$146 billion); and increases in unemployment benefits and other Department of Labor programs (\$46 billion). Receipts were \$294 billion lower than in April 2019 as certain taxes from individuals and corporations were deferred until July.
- U.S. import prices declined 2.6% in April following a 2.4% decrease in March. April's decrease was the largest monthly drop since the index declined 3.2% in January 2015. Import fuel prices declined 31.5% in April, the largest 1-month drop since the index was first published monthly in September 1992. Prices for imports excluding fuel fell 0.5% in April. Prices for U.S. imports also fell on a 12-month basis, decreasing 6.8% for the year ended in April. The decrease was the largest 12-month drop since the index declined 8.3% from December 2014 to December 2015. Prices for U.S. exports fell 3.3% in April, after decreasing 1.7% the previous month. The April drop in export prices was the largest since the index started in 1988.
- Total industrial production fell 11.2% in April for its largest monthly drop in the 101-year history of the index, as the COVID-19 pandemic led many factories to slow or suspend operations throughout the month. Manufacturing output dropped 13.7%, its largest decline on record, as all major industries posted decreases. The output of motor vehicles and parts fell more than 70% while production elsewhere in manufacturing dropped 10.3%. Total industrial production was 15.0% lower in April than it was a year earlier.
- According to the latest Job Openings and Labor Turnover Summary, the number of total separations increased by 8.9 million to a series high of 14.5 million in March. Layoffs and discharges increased to

7.5%. Job openings decreased 813,000 to 6.2 million, or 3.9%. The largest declines were experienced in accommodation and food services (-258,000) and durable goods manufacturing (-82,000). The number of hires fell 3.4%, or 658,000, with the largest drop-offs felt in accommodation and food services (-344,000), health care and social assistance (-87,000), and durable goods manufacturing (-33,000).

- For the week ended May 9, there were 2,981,000 claims for unemployment insurance, a decrease of 195,000 from the previous week's level, which was revised up by 7,000. According to the Department of Labor, the advance rate for insured unemployment claims was 15.7% for the week ended May 2, an increase of 0.3 percentage point from the previous week's rate. The advance number of those receiving unemployment insurance benefits during the week ended May 2 was 22,833,000, an increase of 456,000 from the prior week's level, which was revised down by 270,000.

Eye on the Week Ahead

This week begins to focus on the housing sector with the release of the latest information on new home construction and existing home sales. March saw sales of existing homes drop by over 8.0%.

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 leading 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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