Markets Rebounded on Encouraging Economic Reports. Will the Upward Trend Continue?

U.S. equities rose each day during the holiday shortened week. The S&P 500® Index added 4.0 percent, more than erasing the prior week’s decline. It was enough to pull the month of June into positive territory with a gain of 1.8 percent and deliver the strongest quarterly return since 1998 of 20 percent. In June it was the tech sector that led the way. Its 6.7 percent return was almost 4.0 percent higher than the next best performer, consumer discretionary. And almost half of the groups in the index declined, led by utilities, healthcare, and energy. Last week was a different story. All eleven sectors rose, led by real estate, materials, and communication services.

Bond yields rose fractionally last week. The 10-year Treasury climbed 3 basis points to 0.67 percent and the 2-year Treasury remained anchored at 0.15 percent. High yield spreads narrowed modestly and have basically treaded water for the past three weeks.

Contributing to the better tone last week were several encouraging economic reports. Topping the list was the June labor report which showed the addition of 4.8 million jobs, and a drop in the unemployment rate to 11.1 percent from 13.3.1 The biggest job gains came in the leisure and hospitality sectors, accounting for 40 percent of the increase, with most of those gains coming in restaurants and bars as the economy continued to reopen. But it should be noted that since the week ended June 12, when the labor condition surveys were conducted, several states have reimposed certain restrictions on bars and restaurants as infection rates have spiked, which may reverse some of these gains in the July report. As a result, the weekly initial jobless claims data will take on renewed importance. Also last week, the Conference Board announced the largest increase in its monthly consumer confidence survey since 2011. However, once again the gain may prove ephemeral as the preliminary survey is constructed with responses received by the 18th of the month. The June ISM manufacturing report moved into expansion territory for the first time since February, to its highest level since April 2019. And factory orders rose the most in twenty years.

Stocks Rise in China, Eurozone

As strong as the equity gains were in the U.S. last week, they pale in comparison to what is happening in China. The CSI 300 index has soared recently. In June it gained 8.5 percent. Last week alone it added 6.8 percent and climbed another 5.7 percent to start this week on Monday. Its experience with the coronavirus appears to be contained, and the recent economic data has been solid. The latest Chinese PMI data has risen, but especially so in the service component. And industrial
profit growth year-over-year turned positive in May. Not everything is rising, however. Both retail sales and property investment remain weak, although the rate of decline is moderating. Of course, government influence in the rise of equity prices cannot be dismissed entirely, especially after news service reports citing the importance of fostering a healthy bull market as the economy recovers from the pandemic. How sustainable this recent surge is remains to be seen.

PMI indices have also risen recently in the Eurozone, as have retail sales. Stocks in the Eurozone rose 2.8 percent in dollar terms last week, and 5.9 percent in June. For the month, the euro rose by a little more than 1.0 percent against the dollar and has begun this week on a stronger note as well.

Economic News Expected This Week

This week’s economic calendar in the U.S. is fairly light, although it does include flash PMIs and jobless claims. In the Eurozone, following Monday’s stronger than expected retail sales report for May, German and French industrial production are scheduled. The European Union summit to discuss the proposed rescue fund is scheduled for July 17-18 in Brussels.

Important Disclosures:

Sources: Factset, Bloomberg


The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Ameriprise Financial associates or affiliates. Actual investments or investment decisions made by Ameriprise Financial and its affiliates, whether for its own account or on behalf of clients, will not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not account for individual investor circumstances.

Some of the opinions, conclusions and forward-looking statements are based on an analysis of information compiled from third-party sources. This information has been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by Ameriprise Financial. It is given for informational purposes only and is not a solicitation to buy or sell the securities mentioned. The information is not intended to be used as the sole basis for investment decisions, nor should it be construed as advice designed to meet the specific needs of an individual investor.

A 10-year Treasury note is a debt obligation issued by the United States government that matures in 10 years. The 10-year yield is typically used as a proxy for mortgage rates, and other measures.

A 2-year Treasury note is a debt obligation issued by the United States government that matures in 2 years.

The Consumer Confidence Survey is a survey of 5,000 households, administered by The Conference Board, that measures how optimistic or pessimistic consumers are regarding their expected financial situation.

The Institute for Supply Management (ISM) manufacturing index is a national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies.

The Chinese Flash Manufacturing PMI is based on a survey of purchasing managers in the Chinese manufacturing sector, where respondents are asked for their view of the economic and business conditions in China.

The Eurozone Manufacturing Purchasing Managers' Index (PMI) is a weighted indicator calculated from indices of output, new orders, employment, suppliers' delivery times and stocks of purchases.

INDEX DEFINITIONS

The CSI 300 is a capitalization-weighted stock market index designed to replicate the performance of the top 300 stocks traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.
An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

Definitions of other individual indices mentioned in this article are available on our website at ameriprise.com/legal/disclosures in the Additional Ameriprise research disclosures section, or through your Ameriprise financial advisor.

Past performance is not a guarantee of future results.

Investment products are not federally or FDIC-insured, are not deposits or obligations of, or guaranteed by any financial institution, and involve investment risks including possible loss of principal and fluctuation in value.

Ameriprise Financial Services, LLC. Member FINRA and SIPC.