Weekly Markets Commentary

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Mixed Economic Data and Comments from the Fed Send Stocks Lower

Last week the S&P 500® index fell for the third straight week. The decline was a modest 0.6 percent, but it left the index 7.3 percent below its early September peak. The Nasdaq Composite also fell for the third straight week, by a similar 0.6 percent, leaving it in correction territory, down 10.5 percent from its recent peak. Both averages suffered the bulk of their declines following the Fed meeting on Wednesday.

Despite an unequivocally dovish stance by the Fed regarding interest rate policy, investors were disappointed that there was not a commensurately dovish posture regarding quantitative easing. Despite protestations from the chairman that the Fed retains full flexibility to increase its balance sheet as necessary, that the Fed did not increase its pace of bond purchases was viewed by some as inconsistent with its indication that rates are likely to remain at 0.0-0.25 percent through 2023. Chairman Powell also averred that the Fed's new 2020 GDP forecast of -3.7 percent, updated from its June forecast of -6.5 percent, includes an assumption that another round of fiscal support will be forthcoming, which is no certainty. Powell will have an opportunity to expand upon the Fed's position when he testifies before Congress this week.

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Moves elsewhere were mostly muted. The yield on the ten-year note edged higher by two basis points to end the week at 0.69 percent but was unchanged after the Fed meeting. High yield credit spreads edged slightly lower but are virtually unchanged since the end of July. The dollar also edged lower, as did the VIX. Commodities were a notable exception, as the Bloomberg Commodity index climbed 2.0 percent on the week. WTI crude jumped $3.78, or 10 percent, to $41. 11 a barrel as Saudi Arabia reaffirmed its commitment to production discipline. Copper rose 2.6 percent. And soybeans climbed 6.0 percent on record buying by China.

Stocks Overseas Performing Slightly Better than the U.S.

While domestic equity averages have slumped over the past three weeks, overseas stocks have fared somewhat better. The MSCI All-Country Ex-U.S. index is lower by just 0.6 percent in dollar terms, compared to the 7.3 percent decline in the S&P 500. And international stocks are higher by 1.6 percent over the past two weeks, compared to the 3.1 percent loss in the S&P, which is mostly attributable to the 5.4 percent two week decline in the technology sector with a 29 percent index weight. And the overseas gains are dispersed between the Eurozone, UK, and Asia Pacific regions. Stocks in Latin America are the notable exception, down 2.0 percent.

Overseas weakness as the new trading week gets underway threatens to undo this outperformance, however. Stocks in Asia were lower across the board on Monday and that weakness has spilled into Europe with even greater intensity. The EuroStoxx 50 index is lower by 3.0 in midday trading on concerns about rising virus infections and political uncertainty. Futures in the U.S. are pointing to a sharply lower open as well. The dollar is stronger and commodity prices are lower.

In addition to Fed Chairman Powell's Congressional testimony this week, the economic calendar includes a look at new and existing home sales, durable goods orders, and flash PMIs. Flash PMIs are also scheduled for other major global economies.

Can Congress Align on the Next Round of Fiscal Stimulus? Investors Would Like to Know

While the two parties in Washington remain far apart in their positions on a fourth stimulus measure, president Trump last week urged Republicans to back a $1.5 trillion package, well above their original $1 trillion proposal, as well as the recent $500 billion smaller version Republicans had proposed two weeks ago. The suggestion from the president was not immediately embraced by Republican leadership in the Senate. The Democratic position now rests on a $2.2 trillion package, down from the original proposal of a $3.0 trillion bill. There has been some push within the caucus to accept a smaller package, but the leadership has so far rejected that idea.

Airline executives were in Washington last week pleading their case for additional support, as passenger traffic remains low, and money from the CARES Act runs out as the September 30 moratorium on layoffs and pay cuts is fast approaching.

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Past performance is not a guarantee of future results.

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.

West Texas Intermediate (**WTI**) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

The Purchasing Managers' Index (**PMI**) is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.

The Chicago Board Options Exchange (CBOE) **Volatility Index (VIX)** is a widely used measure of market risk. It shows the market's expectation of 30-day volatility. The VIX is constructed using the implied volatilities of a wide range of S&P 500 index options.

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