There’s a Growing Concern that Economic Momentum is Slowing

Strength in U.S. equities faded as the week drew to a close, leading to the first weekly loss in the past four. The decline was modest, just 0.3 percent in the S&P 500 index, but it followed evidence that the labor market remained under pressure and both the manufacturing and service components of the flash PMI were weaker than expected. Along with a slowdown in certain high frequency data points, there is growing concern that economic momentum is slowing. The sun belt surge in new COVID-19 infections, hospitalizations and deaths is a contributing factor. Not helping is the rising tension with China, which resulted last week in respective consulate closures.

Also not helping has been the seemingly lack of consensus in Washington over the structure of the latest economic support bill, with extended unemployment benefits about to expire at month’s end, along with the federal moratorium on evictions. However, the outline of a $1 trillion Republican agreement with the White House is now reportedly ready for release this week, which contains $1,200 in direct payments and reduced extended unemployment benefits. Negotiations with the House, which passed its own more sizeable package in May, will follow.

More Americans Claiming Unemployment; Economic Growth and the Tech Sector Falter

Weekly jobless claims rose for the first time in sixteen weeks, as 1.416 million new claims were filed. That represents an arguably modest increase from the prior week’s 1.307 million new claims and is dramatically better than the weekly peak of 6.867 new claims on March 27. But it is also a warning sign that the steady improvement of the past four months is in danger of stalling at a time when the unemployment rate is 11.1 percent and continuing jobless claims total 16.2 million.

And on Friday, after service sector activity in the Eurozone in July reportedly surged, hopes for a similar report for the U.S. were met with disappointment as the service PMI failed to even reach breakeven. The tepid reports have kept interest rates under pressure. But that has led to one of the bright spots in this economy, namely housing. Thirty-year fixed rate mortgages recently fell to their lowest rate ever, below 3.0 percent, and that decline has contributed to a sharp increase in housing activity. In June, new homes sales surged by 13.8 percent, well above the 3.6 percent expected increase, led by a 90 percent increase in the northeast. And existing home sales climbed by 20.7 percent, just below the expected 21.4 percent increase.

In addition to the mixed economic data last week there was a stumble in the technology sector that has been a market leader all year. Microsoft reported
earnings that beat expectations, but investors were disappointed in the pace of growth in its cloud business. The stock, which have been up 34 percent for the year through last Wednesday, fell 5 percent to close out the week. And Intel plunged 16 percent on Friday after it surprised investors with comments about its longer-term manufacturing strategy. Overall, the sector fell 1.5 percent for the week, its second straight weekly decline. Energy, financials and consumer discretionary stocks led the gainers, while technology was joined on the downside by communication services and healthcare.

**High Yield Credit Spreads Narrow; Investors Prepare for a Historic GDP Number**

High yield credit spreads narrowed for the fourth straight week and have now recovered three-quarters of the widening that occurred between February 19 and March 23. The ten-year Treasury note ended the week at a yield of 0.59 percent, its lowest weekly close ever according to Bloomberg, and is trading at 0.57 percent in early Monday trading. The DXY dollar index fell for the fifth straight week, and since May 15 has declined by 6 percent. The euro, now trading above 1.17, has climbed more than 8 percent versus the dollar since mid-May.

This week brings the first look at second quarter GDP, and it could be historic. The Bloomberg consensus anticipates an annualized decline of 35 percent. Weekly jobless claims are expected to edge higher once again. Durable goods orders, consumer confidence, and pending home sales are also on the calendar. The Federal reserve also meets this week. No policy changes are expected, but what the Fed says about its view of the economy and its plans for providing ongoing support will be watched carefully.

**Important Disclosures:**
Sources: Factset, Bloomberg

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