First Trust

Weekly Market Commentary

Week Ended October 30th, 2020

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	0.086 (unch)	GNMA (30 Yr) 6% Coupon:	109-24/32 (3.01%)
6 Mo. T-Bill:	0.096 (-1.0 bps)	Duration:	3.63 years
1 Yr. T-Bill:	0.117 (unch)	Bond Buyer 40 Yield:	3.62 (-1 bps)
2 Yr. T-Note:	0.152 (-0.3 bps)	Crude Oil Futures:	35.79 (-4.06)
3 Yr. T-Note:	0.197 (-0.5 bps)	Gold Spot:	1,878.81 (-23.24)
5 Yr. T-Note:	0.384 (0.8 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	0.874 (3.1 bps)	U.S. High Yield:	6.09 (32 bps)
30 Yr. T-Bond:	1.660 (1.9 bps)	BB:	4.64 (23 bps)
		B:	6.44 (42 bps)

Long-term U.S. Treasury bond yields rose throughout last week as markets had a risk-off tone with Election Day looming, stimulus talks stalling, and COVID cases rising. The steepening in the yield curve is perceived to be investors positioning themselves for a “blue wave” coming after next week’s Election Day. The month of October ended with a record-setting amount of state and local government bond sales as municipalities try to take advantage of low rates ahead of what could be a contentious election. Public officials sold over $71 billion of debt last month, which was 22% higher than the previous high in December of 2017, according to Bloomberg. Last week also produced slew of encouraging economic data. On Tuesday, new orders for durable goods in September were well above expectations. On Thursday, the first estimate for third quarter GDP was reported at 33.1% annual rate, 1.1% higher than the consensus estimate. This was largely due to strong consumer spending growing at a staggering 40.7% annual rate. The week ended with positive personal income data for the month of September. Personal income increased 0.9%, well above expectations, led by strong private sector wages as government aid waned. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Monday: October Final Markit US Manufacturing PMI (53.3, 53.3), October ISM Manufacturing (55.8, 55.4), October ISM Prices Paid (60.5, 62.8), September Construction Spending MoM (0.9%, 1.4%); Tuesday: September Factory Orders (1.0%, 0.7%), September Final Durable Goods Order (1.9%, 1.9%), September Final Durables Ex Transportation (0.8%, 0.8%); Wednesday: October 30 MBA Mortgage Applications (n/a, 1.7%), October ADP Employment Change (700k, 479k), September Trade Balance (-$63.9b, -$67.1b), October Final Markit US Services PMI (56.0, 56.0), October Final Markit US Composite PMI (n/a, 55.5), October ISM Services Index (57.4, 57.8); Thursday: October 31 Initial Jobless Claims (740k, 751k), October Continuing Claims (7200k, 7756k), November 5 FOMC Rate Decision (Upper Bound) (0.25%, 0.25%); Friday: October Change in Nonfarm Payrolls (600k, 661k), October Unemployment Rate (7.7%, 7.9%), September Final Wholesales Inventories MoM (-0.1%, -0.1%).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	26,501.60 (-6.47%)	Strong Sectors:	Utilities, Comm Serv, Real Estate
S&P 500:	3,269.96 (-5.62%)		
S&P Midcap:	1,900.18 (-5.70%)	Weak Sectors:	Industrials, Info Tech, Cons Disc
S&P Smallcap:	876.59 (-6.11%)		
NASDAQ Comp:	10,911.59 (-5.50%)	NYSE Advance/Decline:	324 / 2,841
Russell 2000:	1,538.48 (-6.21%)	NYSE New Highs/New Lows:	83 / 181
		AAII Bulls/Bears:	35.3% / 35.3%

The S&P 500 posted its worst weekly return since March due to a risk-off tone as we enter election week. Mega cap technology underwhelmed high expectations, and COVID-19 cases hit new highs across the U.S. and Europe. The five largest technology firms, which account for over 20% of the S&P 500’s weight, reported mostly disappointing results. While big technology came in ahead of consensus estimates, marginal beats and disappointing future guidance weighed across the sector. **Apple Inc.** missed on iPhone sales and did not provide an outlook for next quarter. **Amazon.com Inc.** handily beat estimates but future margins disappointed traders due to higher COVID-19 related expenses. Despite revenue increasing by 12%, shares of **Microsoft Corp.** fell over 7% on a cautious guide. By contrast, **Alphabet Inc.** posted material upside to expectations on strength from YouTube and a resurgence in digital advertising that carried across **Facebook, Inc.** and **Pinterest, Inc.** as well. With the majority of the S&P 500 market cap reporting results to date, over 85% of firms have beat on the bottom line. In economic news, gross domestic product grew at a 33.1% annualized rate for the third quarter, led by a recovery in consumer spending. Looking ahead to next week, Tuesday’s election will take center stage with various different outcomes likely to drive future policy change across different industries. Longer-term, corporate fundamentals and normalization of the U.S. economy will likely be bigger drivers of return, in our view. Its widely believed that phase three results will be released in November from multiple vaccine candidates, which could be a big step in the right direction for a full reopen of the economy.