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US Financial Markets – The Week in Review

14 September 2020

Economic and political backdrop

The continuing lack of progress in Congress on a new stimulus package seemed to be weighing on sentiment, with investors particularly worried about the building financial pressures on states and municipalities. On Thursday, Republicans brought their "skinny" USD 300 billion relief package to a vote in the Senate, but it was blocked by Democrats, who passed a package roughly 10 times as large in the House of Representatives in May.

News late Tuesday that a major multinational pharmaceutical company was pausing the trials of its leading coronavirus vaccine candidate after a participant developed a serious neurological disorder may have also weighed on sentiment – particularly after recent reports that the White House was considering the vaccine's fast-track authorisation as soon as late October.

Last week's economic calendar sent conflicting signals. On Thursday, the Labour Department reported that initial jobless claims remained steady at 884,000 for the week ended 5 September, defying consensus expectations for a decline. Continuing claims also rose unexpectedly, moving higher for the first time since mid-July. On the bright side, July job openings beat expectations, and early reports suggested healthy retail sales over the holiday weekend. A gauge of small business optimism also rose unexpectedly in August after July's drop. Inflation data released Friday also surprised on the upside, with both core (less food and energy costs) and headline consumer prices rising 0.4% from July to August. A jump in used car prices – the largest in over five decades – was partly responsible for the uptick as Americans shunned public transportation and air travel.

Equity markets

The S&P 500 finished the week down 2.5% (5.1% YTD), pulling back further from recent highs in a shortened but highly volatile trading week. The market was closed Monday in observance of Labour Day. Trading began Tuesday on a down note, although there appeared to be no specific catalyst behind the declines other than continuing talk of overbought conditions on Wall Street following the recent rally.

The technology-heavy Nasdaq Composite fared worst – down 4.1% (22.2% YTD) – ending the week in correction territory, or down more than 10% from the all-time high it reached on 2 September. Tech shares were also among the weakest within the S&P 500, while energy stocks suffered as US domestic oil prices sank below USD 40 per barrel for the first time since July, in part because of Saudi Arabia cutting oil prices for some customers. The small materials sector outperformed, and industrials shares also proved resilient. Russell 1000 Growth returned -3.5% (21.2% YTD), Russell 1000 Value -1.5% (-10.7% YTD) and Russell 2000 -2.5% (-9.2% YTD).

Fixed income markets

The US 10-year Treasury yield ended modestly lower for the week at 0.67%, down from 0.72%, pulled lower in part by the news of the pause in a major pharmaceutical company's coronavirus drug trials.

The investment-grade corporate bond primary calendar was very active, and the volume of issuance exceeded expectations. Most new deals were well received, partly due to stronger demand from investors in Asia. Strained US-China relations and some negative Brexit headlines at times contributed to risk-off sentiment, however.

The primary calendar garnered most of the attention in the high yield market and drove much of the selling activity as investors sought to fund purchases of new deals. Equity weakness weighed on the performance of the asset class, and high yield funds reported negative flows. In credit-specific news, one of the first major US clothing retailers to file for Chapter 11 bankruptcy protection due to the impact of the pandemic, emerged from bankruptcy after completing its restructuring plan.

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