

June 1, 2020

Weekly Viewpoint

Markets Extend Rally to Second Month

Performance for Week Ending 5.29.2020

The Dow Jones Industrial Average (Dow) gained 3.75%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 3.03%, the Standard & Poor's 500 Index (S&P 500) finished up 3.01% and the Nasdaq Composite Index (NASDAQ) tacked on 1.77%. Sector breadth was positive with all 11 of the S&P sector groups finishing higher. The Financials (+6.58%) paced the gains followed by Industrials (+6.01%) and Real Estate (+5.83%).

Index*	Closing Price 5/29/2020	Percentage Change for Week Ending 5/29/2020	Year-to-Date Percentage Change Through 5/29/2020
Dow	25383.11	+3.75%	-11.06%
Wilshire 5000	30927.04	+3.03%	-5.96%
S&P 500	3044.31	+3.01%	-5.77%
Nasdaq	9489.87	+1.77%	+5.76%

Market Observations: 5/25/20–5/29/20

The major market indices finished the holiday shortened week solidly higher as optimism surrounding the reopening of the economy outweighed the uptick in tensions between the US and China. The weekly gains also helped push the major averages to their second straight month of gains. There were also signs of the market rally starting to broaden out and take on a more pro-cyclical bias, as witnessed by the strong gains in the Financials (+6.6%) and Industrials (+6.0%) sectors last week. Technicals were also in play last week as the S&P managed to close above its 200 day moving average. The “200” is watched very closely by the trading community and breaks above and below are often viewed as a proxy for a change in the market's longer-term trend.

All fifty states have now at least partially reopened their economies and encouragingly, there has been little evidence of a flare up of new cases. While recent economic data has been very weak, there are “green

shoots” starting to appear. For example, air traffic is starting to pick up off of very dressed levels. According to TSA data, traveler throughput at security checkpoints jumped to over 327K on Friday, nearly 4-times the trough level of 87K reached in mid-April. Apple mobility data (direction requests on Apple maps) has returned to pre-virus levels, as the easing in lockdowns is allowing more people to get out and about. Weekly initial jobless claims declined sequentially for an eighth straight week while continuing claims, which measure ongoing benefit claims in state programs, fell to 21.1 million from 24.9 million during the prior week. The decline suggests that people are starting to return to work as businesses reopen.

As previously mentioned in these pages, what’s important to investors is the rate of change. It’s not whether things are currently good or bad, but whether conditions are improving or getting worse. With most economists forecasting that peak economic pain likely occurred during April and early-May, data in June, July, etc. – by definition, should show improvement.

Pause to Refresh? Following the huge snapback rally we’ve had off the March lows that has taken the S&P 500 up by over 35%, a period of consolidation in the weeks ahead wouldn’t be surprising. In fact, a pullback in the market would be viewed as a ‘pause to refresh’ and not the start of a broader downturn. With that said, for investors who have a longer time horizon, the return profile still looks asymmetrical, favoring upside over downside. Looking out over the next 12 to 24 months, there will certainly be speed bumps and potholes along the way, but the path of least resistance is likely to be skewed higher.

The Week Ahead: The focal point of the upcoming week will be Friday’s release of the monthly payroll data. After declining by over 20 million in April, nonfarm payrolls are forecast to decline by another 8 million in May. The unemployment rate is expected to jump to 19.5% from the prior reading of 14.7%. Other data reports of interest include; the May Institute for Supply Management (ISM) manufacturing index, the May Purchasing Managers’ Manufacturing Index (PMI), April construction spending, May motor vehicle sales, the May ADP unemployment report, the May ISM nonmanufacturing index, and April factory orders. First quarter earnings season continues to wind down with just over a handful of S&P 500 members scheduled to release results.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm’s headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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