

WeeklyMarket Update



General Market News

- Early Monday morning, the yield on the 2-year Treasury opened just below 2 percent at 1.95 percent, while the longer end of the curve essentially stayed flat, making the entire curve flatter. After an initial spike in the yield curve, the spread between the 2-year and 10-year has dropped to about 51 basis points, its lowest since October 2007. The 10-year opened at 2.47 percent, and the 30-year opened at 2.79 percent.
- U.S. markets fared well during the first week of trading in 2018. All three major indices were up more than 2 percent. The Nasdaq Composite led the way, rising 3.4 percent on strength in semiconductors and FANG (Facebook, Amazon, Netflix, Google) stocks. This came despite news of two major flaws in computer chips—dubbed Meltdown and Spectre—which are expected to affect billions of devices. The S&P 500 followed with a 2.63-percent gain. The Dow Jones Industrial Average cracked the 25,000 mark for the first time and posted a 2.37-percent gain.
- One sector that performed well was energy, as WTI crude saw a 1.7-percent increase following civil unrest in Iran and a drop in inventory.
- Last week saw a number of important economic data points, covering the breadth of the economy. On Wednesday, the Institute for Supply Management (ISM) Manufacturing index surprised by increasing, despite expectations for a slight decline. This measure of manufacturing confidence is near a 13-year high.
- On Friday, the December employment report came in worse than expected, with 148,000 new jobs added against expectations for nearly 200,000. On the bright side, wage growth remained stable, and the unemployment rate did not change.
- Also on Friday, the ISM Nonmanufacturing index disappointed by declining for the second month in a row. Despite this pullback, this measure of service-side confidence remains in expansionary territory.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	2.63	2.63	2.63	23.33
Nasdaq Composite	3.40	3.40	3.40	31.55
DJIA	2.37	2.37	2.37	30.19
MSCI EAFE	2.45	2.45	2.45	25.93
MSCI Emerging Markets	3.68	3.68	3.68	39.41
Russell 2000	1.61	1.61	1.61	15.20

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	-0.32	-0.32	3.03
U.S. Treasury	-0.39	-0.39	1.73
U.S. Mortgages	-0.17	-0.17	2.31
Municipal Bond	-0.03	-0.03	4.89

Source: Morningstar Direct



What to Look Forward To

There will be two major data releases to pay attention to this week, both on Friday.

The first data release will be the Consumer Price Index. The headline series, which includes both food and energy, is expected to decline from 0.4 percent in November to 0.2 percent in December, driven largely by declining gasoline prices. The annual figure is expected to decline from 2.2 percent to 2.1 percent. The core inflation number, on the other hand, which excludes

food and energy, is expected to rise on a monthly basis from 0.1 percent in November to 0.2 percent in December, which would leave the annual figure at 1.7 percent. If these numbers come in as expected, they would remain consistent with past performance, and there would be no significant market impact.

The second data release will be retail sales. The headline number, including auto sales, is expected to drop from 0.8 percent in November to a still-robust 0.4 percent for December, driven by

What to Look Forward To (continued)

a decline in auto sales. Core retail sales, which exclude auto sales, are also expected to decline, from 1 percent in November to a still-strong 0.4 percent in December. There may be some

downside risk to this figure. Overall, if the numbers come in as expected, they would indicate continued strong consumer demand growth in the fourth quarter.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. Rev. 01/18.

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