OCTOBER 9, 2017

Weekly Market Update

General Market News

- Treasury yields were flat last week after selling off the week before on renewed optimism regarding tax reform. The 10-year Treasury ended the week where it started, at 2.35 percent. The 30-year bond was also flat, remaining at 2.89 percent. The bond market is closed on Columbus Day, but the equity markets are open.
- All of the major U.S. indices were up by more than 1 percent last week. The Dow Jones Industrial Average led the way with a gain of 1.70 percent. This was followed by the Nasdaq Composite's 1.48-percent move. The S&P 500 brought up the rear with a 1.25-percent increase.
- Equity markets shook off the first decline in U.S. payrolls in seven years as they continued to focus on positive moves toward U.S. tax reform. On Thursday, the U.S. House of Representatives approved a 2018 fiscal year budget blueprint. Congress must pass the 2018 budget before introducing a tax bill.
- In other news last week, Bloomberg News released a short-list of potential candidates for the next chair of the Federal Reserve (Fed). The potential candidates included Jerome Powell, Kevin Warsh, Gary Cohn, and John Taylor. Warsh and Taylor are more hawkish.
- Lastly, the top-performing sectors of the week included financials, materials, and consumer discretionary. The worst performers were consumer staples, telecom, and energy, as oil prices retreated.
- Last week's economic data was mainly positive, with a slight weather-related weakness in employment. The week began with the release of the Institute for Supply Management (ISM) Manufacturing Index, which rose more than expected. In fact, this measure of manufacturers' confidence now sits at a 13-year high.
- Business confidence translated into hard spending as well. On Thursday, durable goods orders, factory orders, and capital goods orders all came in higher than expected. This is a very positive development for fourth-quarter growth.
- Finally, on Friday, the employment report came in below expectations, with a loss of 33,000 jobs. This was due primarily to the effects of the recent hurricanes and is expected to be transitory. The underlying data was more positive than the headline figure, as unemployment and underemployment dropped and average hourly earnings increased.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.25	1.25	15.67	20.42
Nasdaq Composite	1.48	1.48	23.52	25.68
DJIA	1.70	1.70	17.42	27.78
MSCI EAFE	–0.06	–0.06	20.40	20.11
MSCI Emerging Markets	2.00	2.00	30.64	23.42
Russell 2000	1.32	1.32	12.39	22.80

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.15	2.98	0.43
U.S. Treasury	–0.23	2.02	–1.14
U.S. Mortgages	–0.17	2.15	0.35
Municipal Bond	0.02	4.69	1.53

Source: Morningstar Direct

What to Look Forward To

We'll see a wide range of economic news toward the end of this week, including consumer prices, retail sales, and national sentiment.

On Wednesday, the Fed will release the minutes of its last meeting. The Fed already announced its plan to reduce the balance sheet. So what markets will be looking for is information on how the Fed feels about low inflation—and what that means for interest rates. Markets currently expect another rate increase in December, and the minutes could reveal whether the Fed is as hawkish as the markets think it is.

On Friday, the Fed will get some more data to chew on with the release of consumer prices. The headline Consumer Price Index is expected to rise by 0.6 percent on the month and 2.3 percent on the year. This would be up from increases of 0.4 percent and 1.9 percent, respectively, in the last report. This uptick reflects a post-hurricane surge in gasoline prices, due to a 10-percent decline in U.S. refining capacity. As such, the Fed will likely deem the data as temporary and not worrisome. Core prices, which exclude food and energy, are expected to increase by a modest 0.2 percent on the month (the same as last month) and 1.8 percent on the year, which is up slightly from a 1.7-percent increase in the last report. These numbers are more relevant for the economy, and

What to Look Forward To (continued)

they suggest that inflation continues to run low. The Fed may be more cautious about raising rates as a result.

Also on Friday, the retail sales report is expected to show substantial hurricane-related distortions. A gain of 1.6 percent is expected for the headline index, which includes transportation. This is a significant improvement from last month's 0.2-percent drop and can be attributed largely to an increase in auto sales to replace those destroyed in the storms. The core index, which excludes auto sales, is also expected to rise—up 0.9 percent, compared with just 0.2 percent last month. This likely will be due in part to the higher gas prices that also drove up inflation.

If sales in other areas have increased, the hurricanes probably make this month's data too noisy to draw broad conclusions. A strong result, however, would be interpreted as positive overall.

Finally, on Friday, the University of Michigan consumer sentiment survey is expected to drop slightly from 95.1 to 95.0. This would indicate that the hurricanes have had almost no effect on national sentiment—despite disruptions in the job market and a rise in gas prices. That resilience is a reflection of solid fundamentals, which is a good sign going forward. Despite stressful events, overall confidence is likely to remain strong.

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