JUNE 12, 2017

Weekly Market Update

General Market News

- The yield curve steepened slightly last week, as increases on the long end of the curve combined with decreases on the short end. The 10-year Treasury yield opened Monday morning at 2.21 percent while the 30-year opened at 2.86 percent. The market still expects the Federal Reserve (Fed) to hike interest rates 25 basis points at this week's meeting.

- Markets were mixed last week. We saw a large rotation out of the technology sector toward the end of the week, which resulted in a 1.53-percent loss for the Nasdaq. The S&P 500 also declined, by 0.27 percent, but the Dow Jones Industrial Average gained 0.33 percent. Where the technology sector saw outflows, the financial and energy sectors experienced inflows. In fact, conditions for the financial sector are favorable. The Fed is expected to increase rates this week for the second time in 2017, and the House voted to repeal the Dodd-Frank Act, which imposed a number of regulations on banks after the financial crisis. The Comey testimony last week further intensified political drama here in the U.S., but the real focus was on Europe. British Prime Minister Theresa May's choice to hold a snap general election backfired, as the Conservative Party lost its outright majority in the House of Commons. This has many questioning what will happen with Brexit negotiations, which are slated to begin on June 19. May's role as prime minister also appears to be in peril. Elsewhere in Europe, Mario Draghi, president of the European Central Bank (ECB), announced that the ECB was less inclined to cut interest rates, believing that the risk of deflation has passed.

- Last week was light on economic news, but we did see the release of the ISM Non-Manufacturing survey and durable goods data. Both declined more than expected. Despite the dip, the ISM Non-Manufacturing Index, which looks at the business activity, orders, employment, and supplier deliveries within non-manufacturing industries (e.g., construction, mining, and agriculture), remains in healthy expansionary territory. The durable goods report, which looks at new orders placed with domestic manufacturers, declined for the second month in a row. The decline is worrying because both headline and core orders fell more than expected. Given healthy business confidence numbers, this measure should rebound soon, but the situation is worth monitoring.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.27	0.87	9.61	17.38
Nasdaq Composite	–1.53	0.17	15.96	26.78
DJIA	0.33	1.31	8.89	21.32
MSCI EAFE	–1.16	0.25	14.68	16.71
MSCI Emerging Markets	0.36	1.38	18.94	24.90
Russell 2000	1.18	3.79	5.32	22.06

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.04	2.42	0.62
U.S. Treasury	0.00	2.04	–1.18
U.S. Mortgages	–0.02	1.73	0.75
Municipal Bond	0.11	4.05	0.84

Source: Morningstar Direct

What to Look Forward To

After a slow week, the data flow heats up this week. First, on Wednesday, are consumer prices. Headline prices, which include food and energy, are expected to remain flat for May, down from a 0.2-percent increase in April, due to lower gasoline prices. On an annual basis, headline prices are expected to show an increase of 2 percent, down from the previous figure of 2.2 percent. Core consumer prices, however, are expected to rise by 0.2 percent for May, better than the 0.1-percent increase in April. The annual increase should remain stable at 1.9 percent. These numbers are still in line with what the Fed would like to see and probably won't cause a delay in this week's expected interest rate increase.

Another Wednesday report, retail sales are expected to show a similar pattern. Headline sales, which include automobiles, are expected to increase 0.1 percent in May, down from a 0.4-percent rise in April, due to slower vehicle sales and the drop in gas prices. Core sales, which exclude autos, are expected to show a smaller decline—coming in at 0.2-percent growth versus 0.3-percent growth in April. These numbers suggest consumers continue to feel positive about the economy.

Also on Wednesday, the Federal Open Market Committee will finish its regular meeting. Markets expect another rate increase and will also be looking for any hints on whether the Fed plans more

What to Look Forward To (continued)

increases this year. In addition, markets will look for details about how and when the Fed plans to start shrinking the balance sheet.

Thursday's Industrial Production report is expected to show a slowdown—from a 1-percent gain in April to just a 0.1-percent increase in May. This would reflect continuing but slower growth in oil and gas production. Manufacturing growth is also expected to slow, from 1 percent in April to 0.2 percent in May. This slowdown is reasonable after April's surge.

Also on Thursday, the National Association of Home Builders survey is expected to show a strong result for June: 70, the same as for May. Supporting this, housing starts are expected to rise from 1.172 million in April to 1.223 million in May. There may be downside risk to this number, though, on weakness in last month's building permits. Even if housing development slows somewhat, continued strong demand supports the industry confidence figures.

Finally, to close the week, the University of Michigan Consumer Confidence Survey is expected to remain steady at 97.1, close to its highest level in more than a decade. High confidence, as noted above, is driving retail sales and spending growth, which should help the economy as a whole.

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