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Weekly Market Update, January 22, 2018
Presented by **Bruce Cramer**

General market news

- Early Monday morning, the yield on the 10-year Treasury opened at 2.55 percent after climbing as high as 2.64 percent last Friday. The curve as a whole moved higher, as the 10-year was in sync with the 30-year, which closed just under 2.91 percent on Friday. The 2-year remained above 2 percent, closing the week at 2.06 percent.
- The risk-on rally carried its momentum through the third week of 2018, as consumer staples, health care, and technology helped push U.S. markets higher. All three major indices were up more than 0.8 percent for the week, pushing all three above 5-percent gains year-to-date.
- A solid start to earnings season has helped markets ignore the noise from a government shutdown and more hawkish trade talk from the Trump administration. (As we write this on Monday, the Senate is voting on an agreement to reopen the government.) As we get deeper into earnings season, future earnings results and guidance should provide an indicator as to whether the market can maintain this momentum.
- In addition to the shutdown, trade tensions rose as President Donald Trump discussed pulling out of the North American Free Trade Agreement (NAFTA) to gain leverage for U.S. trade deals. Additionally, the U.S. Department of Commerce continued to investigate Chinese trade practices, which are escalating tensions between the two countries. This potential volatility was reflected in the CBOE Volatility Index (VIX), which rose from 10 the previous week to 12.25 last week.
- The data released last week focused primarily on housing, and it showed a slight cooldown. On Tuesday, the National Association of Home Builders Housing Market Index declined slightly. This measure of homebuilder confidence still remains near multi-year highs, however, as demand for new housing is strong.
- Lower homebuilder confidence translated into lower building permits and housing starts. Both of these indicators for future supply were expected to decline, however, following unexpected growth in November.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.88%	5.20%	5.20%	26.64%
Nasdaq Composite	1.04%	6.30%	6.30%	33.87%
DJIA	1.08%	5.56%	5.56%	35.30%
MSCI EAFE	1.25%	4.97%	4.97%	29.66%
MSCI Emerging Markets	2.02%	6.43%	6.43%	41.31%
Russell 2000	0.36%	4.08%	4.08%	20.28%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.93%	–0.93%	2.55%
U.S. Treasury	–1.06%	–1.06%	1.13%
U.S. Mortgages	–0.81%	–0.81%	1.87%
Municipal Bond	–0.37%	–0.37%	4.45%

Source: Morningstar Direct

What to look forward to

The news this week is that there may be no economic news. With the government now in the third day of a shutdown, economic data releases may be postponed. If the government reopens quickly, there will be two major releases this week, both on Friday.

The first estimate of economic growth in the fourth quarter is expected to tick down from a very strong 3.2 percent to a still healthy 2.9 percent. The mix of growth should be strong, with consumer spending up around 4 percent and business investment rising at a double-digit pace, annualized. Government spending is also expected to rise at the state and local levels. Headwinds are expected to include imports growing faster than exports, which would make trade a net drag on growth.

The durable goods report is also expected to pull back a bit at the headline level, but the core figures should improve substantially. The headline number, which includes transportation, can be quite volatile. It is expected to drop from 1.3-percent growth to 0.9-percent growth on a seasonally adjusted decline in aircraft orders. The core figure, which excludes transportation, is expected to rise from a decline of 0.1 percent to 0.7-percent growth. This increase would reflect faster business investment growth and would be a positive sign for the economy.

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Disclosures: *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.*

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