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Weekly Market Update, January 29, 2018
Presented by **Bruce Cramer**

General market news

- The yield on the 10-year Treasury continued its rise from last week, opening at 2.69 percent early Monday morning, up from 2.64 percent last Friday. The 30-year also moved up, beginning the week at 2.94 percent.
- The “Fear of Missing Out” (FOMO) rally continued last week. The S&P 500 was up for the ninth time in 10 weeks. The *Financial Times* reported that global equity funds have received more than $77 billion in flows year-to-date through last Wednesday; this is five times higher than we saw in the first 24 days of 2017.
- Showing positive breadth and depth, all three major U.S. indices were up more than 2 percent last week. Further, every sector was up, with gains as large as 3.54 percent, 3.52 percent, and 3.23 percent experienced in health care, telecom, and consumer discretionary, respectively.
- Speaking of breadth, the International Monetary Fund (IMF) reported last week that approximately 120 economies saw a pickup in year-over-year gross domestic product (GDP) growth for 2017. This number is the highest it has been since 2010.
- As synchronized global growth continues to carry momentum in the market, attention turned to U.S. trade policy as Donald Trump addressed the World Economic Forum in Davos, Switzerland. He reiterated that his “America First” policy “does not mean America alone” but, rather, reflects the desire for fair global trade. The president also passed measures last week to increase tariffs on imported solar panels by 50 percent and washing machines by 30 percent. Trade policy and the strength of the U.S. dollar should remain in focus as the rally continues.
- The major economic news releases last week focused primarily on housing and consumption growth. On Wednesday and Thursday, existing and new home sales declined slightly. These declines were likely due to low supply levels, as housing stock has remained constrained for more than a year.
- On Friday, the first estimate of fourth-quarter GDP growth came in weaker than expected—at 2.6 percent rather than 2.9 percent. There may be more favorable revisions as new estimates are released.
- Durable goods orders, also released on Friday, were much more positive, with 2.9-percent growth against expectations for modest 0.8-percent growth. The increase for this proxy for business confidence is particularly important in light of the Tax Cuts and Jobs Act of 2017.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.23%	7.55%	7.55%	27.60%
Nasdaq Composite	2.31%	8.76%	8.76%	34.17%
DJIA	2.09%	7.77%	7.77%	35.60%
MSCI EAFE	1.50%	6.54%	6.54%	29.53%
MSCI Emerging Markets	3.29%	9.94%	9.94%	42.40%
Russell 2000	0.66%	4.76%	4.76%	18.45%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.95%	–0.95%	2.50%
U.S. Treasury	–1.15%	–1.15%	1.06%
U.S. Mortgages	–0.93%	–0.93%	1.74%
Municipal Bond	–0.63%	–0.63%	4.29%

Source: Morningstar Direct

What to look forward to

This will be a big week for economic data, with four major reports set to be released. On Monday, the personal income and spending report for December is expected to show that income growth held steady from November at 0.3 percent. Personal spending growth, on the other hand, is expected to decline slightly from 0.6 percent in November to 0.5 percent in December. Spending growth should be boosted by an increase in utilities expenditures due to the cold weather, which will be partially offset by a decrease in gasoline prices. If the numbers come in as expected, they would indicate continued expansion of the consumer sector.

On Tuesday, the Conference Board’s consumer confidence survey is expected to show that confidence rose from 122.1 in December to 123.1 in January. With the stock market rising and the tax cuts starting to affect paychecks, an increase seems likely. There may be some downside risk here, however, given recent declines in the other major confidence index from the University of Michigan. But even a small decline would leave this index at levels consistent with continued growth.

On Wednesday, the regular meeting of the Federal Open Market Committee will conclude. Expectations are for no action on interest rates. This will be Janet Yellen’s last meeting as chair, so markets will be watching for clues to see how the new chair’s policy tilt may change.

On Thursday, the Institute for Supply Management will release the January Manufacturing index. It is expected to tick down from a very strong 59.7 in December to an almost-as-strong 59.0 for January. This would reflect continued weakness of the dollar, which makes U.S.-manufactured goods more affordable and spurs continued global growth. Here again, there is some downside risk, given the weakening trends in regional surveys; however, even a larger pullback would still signal healthy growth.

Finally, on Friday, we get the employment report. The economy is expected to add 188,000 new jobs for January. This would be an improvement over the relatively weak 148,000 jobs added in December. If it does rebound, it would return job growth to the typical levels of the past year. The unemployment rate is expected to hold at 4.1 percent, a low level historically, and the average workweek is also expected to hold at 34.5 hours per week. Wage growth is expected to remain constant at 0.3 percent. The annual increase in this number, however, would rise from 2.5 percent in December to 2.7 percent in January, which could be a sign of acceleration. If the wage data meets expectations, it would indicate continued strong expansion of the economy as a whole.

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