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Weekly Market Update, May 21, 2018
Presented by **Bruce Cramer**

General market news

- The 10-year Treasury yield opened at 3.07 percent Monday morning, after being as high as 3.12 percent and as low as 2.94 percent last week. Meanwhile, the 30-year opened at 3.21 percent and the 2-year at 2.57 percent. Although the yield curve remains very flat, it has steepened by a few basis points over the past week.
- The three major U.S. markets ticked down slightly, as the continued strength of the dollar and higher rates led to a reversal of the prior week's risk-on trade. The Russell 2000 Index fared best among the U.S. indices, with the strong dollar supporting small-caps. On the other hand, emerging markets came under pressure as investors dialed back risk in response to the 10-year yield rising back above 3 percent.
- Earnings season began to wind down, with many retailers (Home Depot [HD], Walmart [WMT], Macy's [M]) reporting. Generally, the earnings were modestly disappointing, with colder-than-usual weather cited as one of the reasons for softer results. But according to FactSet, with 93 percent of the S&P 500 reporting, the blended growth rate for the first quarter is 24.5 percent—the best result since the third quarter of 2011. Some common potential headwinds cited in guidance were higher wages, transport, and commodities costs.
- Economic news last week was relatively quiet. On Tuesday, retail sales remained strong, with 0.3-percent growth in April. Encouragingly, March's growth was also revised up to 0.8 percent. The strong March and April figures indicate that consumers may be spending some of their new tax savings.
- Also on Tuesday, the National Association of Home Builders Housing Market Index increased to 70, as expected. Given rising construction and land costs, continued home builder confidence will be key to solving the current supply issues in the market. Despite the high confidence level, building permits and housing starts were both down in April.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.47%	2.63%	2.24%	16.95%
Nasdaq Composite	–0.60%	4.21%	6.99%	22.74%
DJIA	–0.36%	2.56%	0.89%	22.37%
MSCI EAFE	–0.45%	0.64%	1.63%	13.04%
MSCI Emerging Markets	–2.25%	–2.18%	–1.17%	18.10%
Russell 2000	1.27%	5.58%	6.40%	21.06%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.55%	–2.73%	–1.30%
U.S. Treasury	–0.52%	–2.49%	–1.92%
U.S. Mortgages	–0.46%	–2.14%	–1.16%
Municipal Bond	0.30%	–1.17%	0.93%

Source: Morningstar Direct

What to look forward to

This week will be a slow one for economic news, but the releases we will see are important.

On Wednesday, the Federal Reserve (Fed) will release the minutes of the last meeting of its Open Market Committee, which sets interest rates. The statement issued after that meeting was notable for pronouncing that the inflation target was "symmetric" around 2 percent, which suggests the Fed might be willing to let inflation run above that level for some time. Markets are hoping the minutes provide further context for that statement, as well as some clarity about what that could mean for future rate increases. With inflation heating up, interest rates will become increasingly important. Markets will also be looking for some color on how the Fed views the current trade policy disputes, with respect to future growth and inflation.

On Friday, the durable goods orders report is expected to show that headline orders for business equipment dropped from growth of 2.6 percent to a decline of 1.4 percent, on a substantial decline in aircraft orders. This headline index is notoriously volatile due to the airline component. But the core orders index, which excludes transportation and is a much better economic indicator, is expected to do the reverse. It is expected to improve from a decline of 0.1 percent to a gain of 0.5 percent, which would be a very healthy level. Strong regional surveys and manufacturing activity may even show some upside for this figure. If the core number comes in as anticipated, it would suggest that business investment will continue to support growth.

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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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