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Weekly Market Update, May 7, 2018
Presented by **Bruce Cramer**

General market news

- The yield on the 10-year Treasury opened at 2.94 percent Monday morning, in line with where it spent most of last week. Meanwhile, the 30-year stood at 3.10 percent, while the 2-year was at 2.49 percent. The yield curve remains at its flattest level of this current cycle. The Federal Reserve (Fed) decided not to raise rates last week, which would have put more flattening pressure on the curve. It seems likely the Fed will raise rates in June, however.
- U.S. markets were mixed last week, as trade talks and earnings season continued to grab the majority of headlines. The technology-focused Nasdaq Composite was up 1.29 percent as slower smartphone demand weighed less on earnings from Apple (AAPL) than expected. In fact, earnings this quarter have remained strong. According to FactSet, the estimated blended growth rate for first-quarter earnings for the S&P 500 Index is now at 24.2 percent. Despite the high rate, some companies continue to cite rising input and labor prices as reasons for potentially softer guidance moving forward.
- The Chinese-U.S. trade talks concluded in a stalemate, with neither side wanting to make concessions. In other trade-related news, the U.S. did extend temporary exemptions for steel and aluminum tariffs to Canada, Mexico, and the European Union. The exemptions are set to expire in June.
- Last week was a busy one for economic data. On Monday, personal income and personal spending figures for March came in largely in line with expectations, at 0.3-percent growth and 0.4-percent growth, respectively.
- On Tuesday, the Institute for Supply Management (ISM) Manufacturing index declined to 57.3 from 59.3. This was below estimates for a reading of 58.5. On Thursday, the ISM Nonmanufacturing index also declined, dropping from 58.8 to 56.8. Both of these measures of business confidence remain in expansionary territory, so these declines are not alarming; however, further drops should be monitored.
- Finally, on Friday, the April employment report was released. The economy added 164,000 new jobs against expectations for 185,000. The underemployment and unemployment rates both dropped, to 7.8

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.21%	0.61%	0.23%	13.67%
Nasdaq Composite	1.29%	2.05%	4.77%	19.94%
DJIA	–0.19%	0.42%	–1.22%	18.52%
MSCI EAFE	–0.42%	–0.51%	0.44%	13.15%
MSCI Emerging Markets	–1.69%	–2.39%	–1.38%	18.91%
Russell 2000	0.62%	1.55%	2.35%	14.20%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.08%	–2.27%	–0.17%
U.S. Treasury	–0.01%	–1.99%	–0.80%
U.S. Mortgages	0.04%	–1.65%	–0.17%
Municipal Bond	0.48%	–0.99%	1.93%

Source: Morningstar Direct

What to look forward to

The main focus of this week's economic data is prices, though we'll get a look at consumer confidence at the end of the week as well.

Wednesday's producer prices report is expected to show that headline price growth moderated from 0.3 percent in March to 0.2 percent in April. There is significant upside risk here, however, as energy prices have increased across the board. On an annual basis, producer price growth is expected to drop from 3 percent in March to 2.8 percent in April, which would still be a high figure. Here as well there is risk that inflation could move higher.

Core producer prices, which exclude energy, are also expected to moderate, from 0.3-percent growth in March to 0.2-percent growth in April. Here, though, there is less upside risk as energy prices are not included. On an annual basis, growth in core producer prices is expected to tighten from 2.7 percent to 2.4 percent. This would still put price growth above the Fed's 2-percent inflation target, suggesting that more rate hikes are on the way.

Thursday's consumer prices report is expected to show the opposite, with the headline index rising from a decline of 0.1 percent in March to a gain of 0.3 percent in April. This would take the annual figure from 2.4 percent to 2.5 percent, again primarily on rising energy prices. Core prices, which exclude food and energy, are expected to show constant growth, at 0.2 percent for both March and April. Due to base effects, however, the annual figure is expected to rise from 2.1 percent in March to 2.2 percent in April. Again, this would be above the Fed's target, suggesting that rates will keep rising.

Finally, on Friday, the University of Michigan consumer confidence survey is expected to pull back slightly, from 98.8 in April to 98.3 in May. The survey would remain at a high level, however, consistent with continued growth, and the pullback would have no material effect. In fact, if confidence remains at the expected level, it would suggest that consumption growth is likely to rebound after a slow first quarter, which would be constructive for the economy.

*****Please click the following link!!***** https://vimeo.com/channels/966267 *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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