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Weekly Market Update, June 18, 2018
Presented by **Bruce Cramer**

General market news

- On Monday morning, the 10-year Treasury yield opened at 2.90 percent, while the 30-year opened at 3.03 percent and the 2-year at 2.54 percent. The yield curve is at its flattest level of this tightening cycle.
- U.S. markets were mixed last week, as they had a significant amount of data and events to digest. The Nasdaq Composite and Russell 2000 were up 1.34 percent and 0.72 percent, respectively. The S&P 500 (up 0.07 percent) and the Dow Jones Industrial Average (down 0.84 percent) did not fare as well.
- On Wednesday, the Federal Reserve raised the federal funds rate by 25 basis points, as expected. What was not anticipated, however, was its more bullish tone for the remainder of the year—giving a median projection of three to four rate hikes in 2018. The anticipation of more rate hikes in an attempt to slow the economy sent rates lower as investors shifted to safety.
- The major geopolitical event came on Friday as the U.S. levied $50 billion in tariffs on Chinese imports. The other international news was more positive, with President Donald Trump meeting with Kim Jong-un for the first time in an encounter that was described as cordial. In other international news, Mario Draghi, president of the European Central Bank (ECB), said the ECB would end its quantitative easing plan by the end of 2018 and that rates would be kept steady through the summer of 2019. Finally, it was ruled that AT&T can move forward with its acquisition of Time Warner. This should help pave the way for other deals, such as the one between Disney and 21st Century Fox, and is seen as a positive for the overall mergers and acquisitions environment.
- Last week was a big one for economic updates. On Tuesday, the Consumer Price Index came in at 2.8-percent growth on a year-over-year basis. The core figure, which excludes food and energy, showed 2.2-percent growth.
- On Wednesday, the Producer Price Index indicated accelerated inflation of 3.1 percent year-over-year.
- On Thursday, May retail sales data came in better than expected with 0.8-percent growth, compared with expectations for a more modest increase of 0.4 percent. Given the high level of consumer confidence, faster growth is likely to continue.
- Finally, on Friday, the University of Michigan consumer sentiment survey bounced back from a decline in May.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.07%	2.84%	4.92%	16.51%
Nasdaq Composite	1.34%	4.13%	12.79%	27.02%
DJIA	–0.84%	2.87%	2.62%	20.17%
MSCI EAFE	–0.48%	0.80%	–0.44%	10.02%
MSCI Emerging Markets	–1.85%	–0.46%	–3.02%	13.90%
Russell 2000	0.72%	3.14%	10.26%	20.94%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.45%	–1.94%	–1.13%
U.S. Treasury	–0.48%	–1.58%	–1.62%
U.S. Mortgages	–0.39%	–1.39%	–0.68%
Municipal Bond	–0.15%	–0.49%	0.85%

Source: Morningstar Direct

What to look forward to

This will be a slow week for economic reports, but we will get some news on housing.

On Monday, the National Association of Home Builders released its industry survey for June, which dropped from 70 last month to 68. But given the lack of lots and labor, as well as a surge in lumber prices, this pullback is reasonable. Overall, the index remains at a healthy level. Despite the shortage of home supply, demand remains strong and should continue to support industry confidence. With inventories falling to a record low in April, that trend should continue.

On Tuesday, housing starts are expected to tick up slightly, from 1.29 million in April to 1.31 million in May. Single-family starts have stayed stable over the past several months, while multifamily starts have been volatile. Items to watch will be whether single-family starts rise to match industry confidence.

On Wednesday, the existing home sales report is also expected to rise, from 5.46 million in April to 5.50 million in May. This will come on continued strong demand, especially as buyers move to purchase now before mortgage rates rise further. There may be some downside risk here, however, on lack of supply.

Overall, the housing market is expected to continue to improve, but it will be constrained by lack of supply.

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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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