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Weekly Market Update, September 24, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- Volatility was back last week. The 10-year Treasury rate bounced between 3.11 percent and 3.02 percent. Given how flat the yield curve is today—with a difference of only 25 basis points between the 2-year and 10-year—a move of 9 basis points on the 10-year is significant. Further, the Federal Reserve (Fed) raised rates last week and is projected to raise them again over the next 12 months. As such, the longer end of the curve will see volatility, while the short end will move up in tandem with the federal funds rate. One note from last week's Fed meeting is that the Fed no longer considers its stance as accommodative. Also, with the federal funds rate above 2 percent and the long-term target at 3 percent, the Fed is likely in the later stages of raising rates.
- U.S. equity markets were mixed last week, as trade tensions and eurozone financial uncertainty weighed on the markets. The *Wall Street Journal* reported that China canceled its upcoming trade talks with the U.S., as China was displeased with the recent additional $200 billion in tariffs. It is expected that President Trump may soon offer a final $267 billion in tariffs. The news weighed heavily on the materials sector, which was down more than 4.4 percent on the week. The financial sector was also down by more than 4 percent on the week.
- The Italian government agreed to a 2.4-percent budget deficit target, which could potentially be a breach of its EU obligations. Adding to the European volatility was continued uncertainty over Brexit, as Theresa May and her cabinet continue to work to come to an agreement with Europe.
- Last week was a busy one for economic updates. On Tuesday, the Conference Board Consumer Confidence Index defied expectations for a slight pullback, instead rising to an 18-year high. On Wednesday, new home sales also came in better than expected, with 3.5-percent growth against expectations for 0.5-percent growth.
- On Thursday, the final measure of second-quarter gross domestic product growth came in at 4.2 percent. Also on Thursday, August's durable goods orders came in at a very strong 4.5 percent due to a large uptick in aircraft orders.
- On Friday, the August personal income and personal spending reports both showed growth of 0.3 percent.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.51%	0.57%	10.56%	18.35%
Nasdaq Composite	0.76%	–0.70%	17.48%	26.00%
DJIA	–1.07%	1.97%	8.83%	20.89%
MSCI EAFE	–0.85%	0.88%	–0.98%	3.80%
MSCI Emerging Markets	–0.25%	–0.54%	–7.39%	0.43%
Russell 2000	–0.86%	–2.41%	11.51%	15.41%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.64%	–1.60%	–1.22%
U.S. Treasury	–0.93%	–1.67%	–1.66%
U.S. Mortgages	–0.61%	–1.07%	–0.95%
Municipal Bond	–0.65%	–0.40%	0.34%

Source: Morningstar Direct

What to look forward to

This is a very busy week for economic news. We'll have looks at business sentiment across the board, the trade balance, and, most important, the job market.

On Monday, the Institute for Supply Management (ISM) Manufacturing index dropped slightly. It went from 61.3 to 59.8, after an unexpected surge in August. This is a diffusion index, where values above 50 indicate expansion and below 50 indicate contraction. So, even with the decline, this result remains quite strong. In general, the pullback looks to have come from slowing global growth. More specifically, it may have resulted from the recent appreciation in the dollar, which has been increasing the costs of U.S. products to foreign buyers. Uncertainty over trade policy remains a headwind as well. With manufacturing growth slowing, the pullback is reasonable. Even with the pullback, however, sentiment remains quite strong and positive for the economy as a whole.

On Wednesday, the ISM Nonmanufacturing index is also expected to pull back slightly—from 58.5 to 58—after an increase in August. As with the manufacturing report, this is a diffusion index. So, it should continue to indicate expansion on strong retail sales growth, as well as strong regional surveys. With consumer confidence high and spending growth solid, this indicator should remain positive for the economy as a whole, despite the small expected decline.

On Friday, the international trade report is expected to show the trade deficit has worsened. It is anticipated to go from $50.1 billion to $50.7 billion. We already know from the advance report that the trade deficit in goods widened, as export growth has now dropped back even as imports have increased. As such, there may be some additional downside risk to this report. Overall, if the numbers come in as expected, trade will likely be a drag on third-quarter growth.

Finally, on Friday, the employment report will be released. It is expected to show that job growth pulled back to a still healthy 188,000 in September from a strong August report of 201,000. The unemployment rate is expected to drop from 3.9 percent to 3.8 percent. Wage growth should also pull back a bit. It should go from 0.4 percent in August to 0.3 percent for September on a monthly basis and from 2.9 percent to 2.8 percent on an annual basis. If these numbers come in as anticipated, this would be another healthy report and signal continued economic growth. It would also likely support another rate hike from the Fed in December.

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