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Weekly Market Update, July 30, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- Rates were up across the curve last week, as the 10-year, 30-year, and 2-year Treasuries reached 2.98 percent, 3.10 percent, and 2.67 percent, respectively. The yield curve did steepen, but it remains close to cycle lows. With the recent market resistance, it will be interesting to see if rates move above resistance levels or if the curve continues to flatten.
- U.S. markets were mixed last week as we entered peak earnings season. There was a general risk-off sentiment, with technology earnings showing signs of softness. Facebook (FB) sold off sharply due to concerns about increased spending on headcount and overseas monetization as domestic user growth has slowed. Twitter (TWTR) also fell on concerns over user growth. Despite a miss on revenue, Amazon (AMZN) posted strong earnings, as improved operating efficiencies and higher margins offset the sales miss. Alphabet (GOOG/GOOGL) also posted an earnings beat backed by higher-than-expected revenue. Meanwhile, small-cap stocks sold off, as trade tensions between the European Union and the U.S. eased following a meeting between President Trump and European Commission President Jean-Claude Juncker.
- It was an action-packed week for economic updates. On Monday, existing home sales declined 0.6 percent against expectations for a modest increase. On Wednesday, new home sales also fared worse than expected, dropping 5.3 percent. Existing home supply remains low, as builders have pulled back in the face of rising costs.
- On Thursday, June's durable goods orders missed expectations, despite the headline figure rising 1 percent and the core figure growing 0.4 percent. Although these measures of business investment were lower than expected, they represent solid growth.
- The big news of the week came on Friday, when the first estimate of gross domestic product growth for the second quarter came in at 4.1 percent annualized. This is the highest growth rate since 2014. Much of this growth can be attributed to a rebound in personal consumption, which grew by 4 percent against expectations for 3 percent.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.61%	3.80%	6.55%	16.10%
Nasdaq Composite	–1.05%	4.58%	14.38%	24.33%
DJIA	1.57%	4.98%	4.22%	19.43%
MSCI EAFE	1.35%	2.73%	0.30%	7.23%
MSCI Emerging Markets	2.15%	2.73%	–3.96%	4.93%
Russell 2000	–1.96%	1.28%	9.04%	17.50%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.03%	–1.64%	–0.85%
U.S. Treasury	–0.46%	–1.54%	–1.28%
U.S. Mortgages	–0.15%	–1.10%	–0.44%
Municipal Bond	0.23%	–0.02%	1.02%

Source: Morningstar Direct

What to look forward to
This will be a very busy week for economic news.

On Tuesday, the personal income report is expected to show steady income growth of 0.4 percent for June, just as it did in May. Personal spending growth is expected to rise from 0.2-percent growth in May to 0.4-percent growth in June. While the income numbers look reasonable, there may be some downside risk on spending due to weak retail sales growth. In any case, these numbers would indicate continued expansion.

Also on Tuesday, the Conference Board's survey of consumer confidence is expected to show a slight pullback from 126.4 to 126. This marginal change would not be cause for concern, as the index would still be coming in at a historically high level.

On Wednesday, the Institute for Supply Management (ISM) Manufacturing index is expected to pull back from 60.2 in June to 59.2 in July. As this is a diffusion index with values greater than 50 indicating expansion, this decline would still be a strong result. Manufacturing has been supported by high international demand and a weak dollar. While these factors are changing, the effects persist.

Also on Wednesday, the Federal Open Market Committee (FOMC) will complete its regular meeting with a public statement. The FOMC is not expected to take any action at this meeting, and there will not be a press conference, so the markets will simply be looking for guidance on whether a September rate hike is coming.

On Friday, the international trade report is expected to show an increase in the trade deficit from $43.1 billion in May to $44.6 billion in June. There may be some downside risk here, as the advance goods trade deficit widened and the tariff-driven boost from Chinese purchases of soybeans will drop off. The dollar's recent appreciation will also weigh on trade. This report would suggest that the second quarter's improved trade balance is not likely to last.

Also on Friday, the ISM Nonmanufacturing index is expected to stay steady at a nine-month high of 59.1 for July. This result would indicate continued strong growth.

Finally, Friday's employment report should continue to show solid growth. Job gains are expected to drop from 213,000 in June to a still strong 190,000 in July. The unemployment rate is likely to drop from 4 percent to 3.9

percent, and the average workweek should stay steady at 34.5 hours. Wage growth is also expected to remain at 0.3 percent for the month and 2.7 percent for the year. This result would add to the current string of strong reports and point to continued economic 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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