MISSOURI
1300 NW Briarcliff Pkwy, Ste. 120
Kansas City, MO 64150
913.948.6770
816.399.0787

Weekly Market Update, September 10, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- Rates finished last week by moving higher. Short rates moved the most, as the 2-year Treasury yield opened on Monday at 2.70 percent. The 10-year had been at 2.80 percent a week and a half ago but opened Monday at 2.93 percent. The 30-year opened at 3.09 percent. The curve-flattening process is getting upward pressure from short rates as the market anticipates the Federal Reserve (Fed) moving short rates higher this fall. Long rates seem to be hitting a ceiling for the time being.
- All three major U.S. averages moved lower last week. The tech-heavy Nasdaq Composite Index had the largest loss in months, as technology shares had a large sell-off. Facebook and Twitter executives testified before Congress about foreign interference in U.S. elections and what steps are being taken to mitigate that, and investors responded negatively to the outcome. The energy sector further pressed U.S. markets lower as investors sold off in response to rising U.S. oil inventories. Finally, Chinese tariff talks have weighed on markets recently, but nothing has been implemented. The U.S. administration is evaluating the effects of the latest proposed round of tariffs before acting.
- Last week, several important economic reports were released. On Tuesday, the Institute for Supply Management (ISM) Manufacturing index defied expectations and rose to 61.3 from an already strong 58.1. On Thursday, the ISM Nonmanufacturing index also came in better than expected, jumping from 55.7 to 58.5. These positive results show that business confidence remains high.
- On Friday, the August employment report came in better than expected, with 201,000 new jobs added during the month. The underlying data was also strong, with unemployment remaining steady at 3.9 percent and average wage growth increasing to 2.9 percent annualized.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.98%	–0.98%	8.86%	18.77%
Nasdaq Composite	–2.53%	–2.53%	15.32%	24.81%
DJIA	–0.14%	–0.14%	6.58%	21.67%
MSCI EAFE	–2.83%	–2.83%	–4.66%	0.94%
MSCI Emerging Markets	–3.06%	–3.06%	–9.77%	–3.63%
Russell 2000	–1.57%	–1.57%	12.47%	24.05%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.45%	–1.40%	–1.76%
U.S. Treasury	–0.48%	–1.22%	–2.37%
U.S. Mortgages	–0.39%	–0.85%	–1.11%
Municipal Bond	–0.27%	–0.02%	–0.08%

Source: Morningstar Direct

What to look forward to

This week's data will start with prices and concerns over inflation.

On Wednesday, the producer price reports will be released. The headline index, which includes energy and food, is expected to rise by 0.2 percent for August, up from a flat result in July. There may be some upside risk on energy prices, as well as tariff-driven increases in other input prices—particularly steel and electronics. The annual change is expected to drop from 3.3 percent to 3.2 percent, indicating that longer-term inflation pressures remain above the target range set by the Fed. The core index, which excludes energy and food, should also rise. It is expected to go from 0.1 percent in July to 0.2 percent for August. The annual figure should stay steady at 2.7 percent. Tariffs are reported to be driving faster input inflation, although it is not yet expected to show up in the aggregate figures.

On Thursday, the consumer price reports are expected to show continued inflation at the headline level. The headline index will likely rise by 0.3 percent in August, up from 0.2 percent in July. The annual figure is expected to drop from 2.9 percent in July to 2.8 percent in August. The core index, on the other hand, should stay steady—with the monthly figure holding at 0.2 percent and the annual figure at 2.4 percent. As with the producer prices, these figures indicate inflation continues to run above the Fed's target levels, which should continue to drive interest rates higher.

On Friday, the retail sales report is expected to show growth of 0.6 percent for August, up from 0.5 percent in July, on a rise in gasoline prices and steady auto sales. There is some downside risk, as a modest pullback may be likely after a big increase in July. Core retail sales, which exclude autos, are also expected to do well. August growth should remain steady at 0.6 percent—the same as in July.

Also on Friday, the industrial production report should tick up a bit, from a gain of 0.1 percent for July to a gain of 0.3 percent for August. Manufacturing will likely show similar growth—from a 0.3-percent gain in July to a 0.4-percent gain in August. There's some downside risk with these numbers, as manufacturing employment declined last month and growth in oil drilling and utility production was moderate.

Finally, we'll see the University of Michigan consumer confidence survey on Friday. It is expected to hold steady from August to September at 96.2. This is a historically high level and suggests that consumers are not yet worried about the effects of a trade war, given a decline in gas prices and the recent stock market surge. There may be some upside risk here, as the recent increase in the Conference Board survey brought it close to an 18-year high.

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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 U.S. 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 U.S. 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.*

Bruce & Dawn Cramer are financial advisors located at Cramer Capital Management 1300 NW Briarcliff Parkway, Suite 120, Kansas City, MO 64150. They offer securities and advisory services as Investment Adviser Representatives of Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Advisers. They can be reached at 913-948-6770 or at bruce@cramercapitalmanagement.com or dawn@cramercapitalmanagement.com

Authored by the Investment Research team at Commonwealth Financial Network.