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

Weekly Market Update, September 17, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- Rates moved higher last week. The 10-year Treasury yield went from 2.87 percent to more than 3 percent this morning. The 3-year bond is now yielding what the 10-year was last week, and the 2-year is yielding what the 10-year was two weeks ago. As rates continue to compress and push up closer to a ceiling, the bond market seems to be telling us that while the economy looks good, there are factors indicating a recession in the future. The Federal Reserve (Fed) seems committed to raising rates. Keep in mind, however, that the Fed uses its "language" as a policy tool as well.
- All three major U.S. indices, the Russell 2000, and both the MSCI EAFE and MSCI Emerging Markets indices were up last week. Both improvement in fundamentals and the expectation of resumed trade talks between the U.S. and China were also in the news. The *Wall Street Journal* reported on Wednesday that Treasury Secretary Steven Mnuchin had reached out to continue trade talks with China. This was confirmed by the Chinese Foreign Ministry, which had reportedly welcomed the offer. Further, the Turkish Central Bank surprised last week when it increased the one-week repo rate by 625 basis points. This move followed the country's continued currency weakness after the U.S. doubled its tariffs of Turkish steel and aluminum last month.
- Despite both Goldman Sachs and Stifel raising concerns over a potential peak in the memory chip cycle, the S&P 500's technology sector posted a 1.83-percent gain. This move was supported both by Qualcomm announcing $16 billion of its common stock as the first phase of its $30 billion buyback plan and by a 1.2-percent move in Apple following the release of three new iPhones and a new version of the Apple watch.
- Economic news regarding inflation and consumer spending was released last week. On Wednesday, the Producer Price Index declined by more than expected, leaving annual inflation for producers at 2.8 percent. On Thursday, the Consumer Price Index showed a similar decline, with annual inflation of 2.7 percent.
- On Friday, August retail sales came in lower than expected at 0.2-percent growth month-over-month. July's figure was revised upward, however, accounting for the lower-than-expected growth in August.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.21%	7.33%	10.18%	18.68%
Nasdaq Composite	1.39%	6.90%	16.92%	25.90%
DJIA	0.94%	8.37%	7.59%	20.47%
MSCI EAFE	1.78%	–0.60%	–2.96%	2.19%
MSCI Emerging Markets	0.60%	–2.91%	–9.23%	–3.97%
Russell 2000	0.54%	5.03%	13.08%	22.36%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.55%	–1.51%	–1.37%
U.S. Treasury	–0.73%	–1.46%	–1.95%
U.S. Mortgages	–0.52%	–0.98%	–0.97%
Municipal Bond	–0.46%	–0.21%	–0.01%

Source: Morningstar Direct

What to look forward to

This week's economic data is all about housing.

On Tuesday, the National Association of Home Builders survey will be released. It is expected to tick down a bit further—from 67 in August to 66 in September—for the third month in a row. There may be some upside risk here. Although the industry continues to suffer from labor shortages and slowing housing demand, dropping lumber prices and an increase in permits may signal improved sentiment. That being said, this survey has shown declining confidence for several months now.

On a similar note, the housing starts report, released on Wednesday, is expected to show further recovery after a significant drop in June. It should rise from 1.17 million in July to 1.23 million (annualized) in August. Here again, this report will be constrained by rising supply and weakening demand. Even if it comes in as expected, it will still be below the levels from earlier this year.

Finally, on Thursday, the existing home sales report is also expected to show sales rising from 5.34 million in July to 5.38 million in August. This would be a partial recovery, but as with new home sales, it will be below the levels of the first half of the year.

Overall, while some recovery is expected from the weak results of last month, the data will likely show that housing continues to slow.

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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.