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Weekly Market Update, September 4, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- Volatility was back in rates last week. The 10-year Treasury yield went from as low as 2.80 percent to as high as 2.90 percent; it ended the week at 2.86 percent, where it opened on Monday. Meanwhile, the 30-year was at 2.95 percent early last week before selling for 3.03 percent midweek; it was back to 2.97 percent by Friday and opened at 3.04 percent on Monday morning. The uncertainty here stemmed mostly from unclear political direction, tariffs, and trade wars.
- All three major U.S. markets moved higher last week. The Nasdaq Composite Index led the way, with technology, consumer discretionary, and health care among the top performers. Bond proxies (telecom, utilities, staples) lagged, however, as the week favored a risk-on rally ahead of a widely expected September rate hike. The major news last week was the U.S.–Mexico trade agreement, which seemed to ease the minds of investors, even as trade concerns between the U.S. and China continued to grab headlines. Meanwhile, the U.S. and Canada are set to resume their trade talks this week.
- Last week was active on the economic update front. On Tuesday, the Conference Board Consumer Confidence Index surprised to the upside. It jumped from 127.4 to 133.4—the highest level in nearly 18 years.
- On Wednesday, the second estimate of second-quarter gross domestic product growth also came in better than expected. This measure of overall economic activity was revised up to 4.2-percent annualized growth.
- Finally, on Thursday, personal income and spending figures from July were released. These came in at 0.3 percent and 0.4 percent, respectively, which represents healthy growth levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.98%	3.03%	9.94%	19.66%
Nasdaq Composite	2.07%	5.85%	18.31%	27.45%
DJIA	0.79%	2.56%	6.73%	21.00%
MSCI EAFE	0.28%	–1.90%	–1.87%	4.90%
MSCI Emerging Markets	0.60%	–2.68%	–6.93%	–0.32%
Russell 2000	0.91%	4.31%	14.26%	25.45%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.64%	–0.96%	–1.05%
U.S. Treasury	0.76%	–0.74%	–1.54%
U.S. Mortgages	0.61%	–0.46%	–0.53%
Municipal Bond	0.26%	0.25%	0.49%

Source: Morningstar Direct

What to look forward to

This is a short week but a very busy one for economic news, with looks at business sentiment, the trade balance, and, most important, the job market.

On Tuesday, the Institute for Supply Management (ISM) Manufacturing index was expected to drop slightly—from 58.1 to 57.6—but instead jumped to a 14-year high of 61.3. This is a diffusion index, where values above 50 indicate expansion and below 50 indicate contraction. So, with this increase, the index remains quite strong. The anticipated pullback was expected to come from slowing global growth—specifically the recent appreciation in the dollar, which has been increasing the costs of U.S. products to foreign buyers. Instead, the ISM's new-orders index and employment gauge both increased. Further, 16 of the 18 industries reported expanding in August. Uncertainty over trade policy remains a headwind, but overall this dramatic growth signals a positive outlook for the economy.

On Wednesday, the international trade report is expected to show that the trade deficit has climbed from $46.3 billion to $47.5 billion. Exports surged in the second quarter as buyers bought ahead of pending tariffs. Export growth has now dropped back, which may suggest there is some additional downside risk here. Overall, if the numbers come in as expected, trade will likely be a drag on third-quarter growth.

On Thursday, the ISM Nonmanufacturing index is expected to rebound a bit—from 55.6 to 56.9—after a sharp drop in August. As with the manufacturing report, this is a diffusion index, so this level would indicate continued expansion. The expected bounce should come from 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.

Finally, on Friday, the employment report is expected to show that job growth rebounded to 191,000 in August from a weak July report of 157,000. The unemployment rate is expected to remain steady at 3.9 percent as the labor force continues to grow. Wage growth is expected to stay steady at 0.3 percent on a monthly basis but tick up from 2.7 percent to 2.8 percent on an annual basis. If the numbers come in as expected, this would be another healthy report and signal continued economic growth. It would also likely lock in another rate hike from the Federal Reserve in September.

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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.*

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