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Weekly Market Update, January 22, 2018

Presented by **Dawn Cramer**

General market news

- Early Monday morning, the yield on the 10-year Treasury opened at 2.55 percent after climbing as high as 2.64 percent last Friday. The curve as a whole moved higher, as the 10-year was in sync with the 30-year, which closed just under 2.91 percent on Friday. The 2-year remained above 2 percent, closing the week at 2.06 percent.
- The risk-on rally carried its momentum through the third week of 2018, as consumer staples, health care, and technology helped push U.S. markets higher. All three major indices were up more than 0.8 percent for the week, pushing all three above 5-percent gains year-to-date.
- A solid start to earnings season has helped markets ignore the noise from a government shutdown and more hawkish trade talk from the Trump administration. (As we write this on Monday, the Senate is voting on an agreement to reopen the government.) As we get deeper into earnings season, future earnings results and guidance should provide an indicator as to whether the market can maintain this momentum.
- In addition to the shutdown, trade tensions rose as President Donald Trump discussed pulling out of the North American Free Trade Agreement (NAFTA) to gain leverage for U.S. trade deals. Additionally, the U.S. Department of Commerce continued to investigate Chinese trade practices, which are escalating tensions between the two countries. This potential volatility was reflected in the CBOE Volatility Index (VIX), which rose from 10 the previous week to 12.25 last week.
- The data released last week focused primarily on housing, and it showed a slight cooldown. On Tuesday, the National Association of Home Builders Housing Market Index declined slightly. This measure of homebuilder confidence still remains near multi-year highs, however, as demand for new housing is strong.
- Lower homebuilder confidence translated into lower building permits and housing starts. Both of these indicators for future supply were expected to decline, however, following unexpected growth in November.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.88%	5.20%	5.20%	26.64%
Nasdaq Composite	1.04%	6.30%	6.30%	33.87%
DJIA	1.08%	5.56%	5.56%	35.30%
MSCI EAFE	1.25%	4.97%	4.97%	29.66%
MSCI Emerging Markets	2.02%	6.43%	6.43%	41.31%
Russell 2000	0.36%	4.08%	4.08%	20.28%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.93%	–0.93%	2.55%
U.S. Treasury	–1.06%	–1.06%	1.13%
U.S. Mortgages	–0.81%	–0.81%	1.87%
Municipal Bond	–0.37%	–0.37%	4.45%

Source: Morningstar Direct

What to look forward to

The news this week is that there may be no economic news. With the government now in the third day of a shutdown, economic data releases may be postponed. If the government reopens quickly, there will be two major releases this week, both on Friday.

The first estimate of economic growth in the fourth quarter is expected to tick down from a very strong 3.2 percent to a still healthy 2.9 percent. The mix of growth should be strong, with consumer spending up around 4 percent and business investment rising at a double-digit pace, annualized. Government spending is also expected to rise at the state and local levels. Headwinds are expected to include imports growing faster than exports, which would make trade a net drag on growth.

The durable goods report is also expected to pull back a bit at the headline level, but the core figures should improve substantially. The headline number, which includes transportation, can be quite volatile. It is expected to drop from 1.3-percent growth to 0.9-percent growth on a seasonally adjusted decline in aircraft orders. The core figure, which excludes transportation, is expected to rise from a decline of 0.1 percent to 0.7-percent growth. This increase would reflect faster business investment growth and would be a positive sign for the economy.

Brad McMillan, Senior Vice President, Chief Investment Officer, at Commonwealth, provides our advisors and their clients with market insights and analysis to help inform their investment decisions.
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