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Weekly Market Update, January 8, 2018

Presented by **Dawn Cramer**

General market news

- Early Monday morning, the yield on the 2-year Treasury opened just below 2 percent at 1.95 percent, while the longer end of the curve essentially stayed flat, making the entire curve flatter. After an initial spike in the yield curve, the spread between the 2-year and 10-year has dropped to about 51 basis points, its lowest since October 2007. The 10-year opened at 2.47 percent, and the 30-year opened at 2.79 percent.
- U.S. markets fared well during the first week of trading in 2018. All three major indices were up more than 2 percent. The Nasdaq Composite led the way, rising 3.4 percent on strength in semiconductors and FANG (Facebook, Amazon, Netflix, Google) stocks. This came despite news of two major flaws in computer chips—dubbed Meltdown and Spectre—which are expected to affect billions of devices. The S&P 500 followed with a 2.63-percent gain. The Dow Jones Industrial Average cracked the 25,000 mark for the first time and posted a 2.37-percent gain.
- One sector that performed well was energy, as WTI crude saw a 1.7-percent increase following civil unrest in Iran and a drop in inventory.
- Last week saw a number of important economic data points, covering the breadth of the economy. On Wednesday, the Institute for Supply Management (ISM) Manufacturing index surprised by increasing, despite expectations for a slight decline. This measure of manufacturing confidence is near a 13-year high.
- On Friday, the December employment report came in worse than expected, with 148,000 new jobs added against expectations for nearly 200,000. On the bright side, wage growth remained stable, and the unemployment rate did not change.
- Also on Friday, the ISM Nonmanufacturing index disappointed by declining for the second month in a row. Despite this pullback, this measure of service-side confidence remains in expansionary territory.

Equity Index	**Week-to-Date**	**Month-to-Date**	**Year-to-Date**	**12-Month**
S&P 500	2.63%	2.63%	2.63%	23.33%
Nasdaq Composite	3.40%	3.40%	3.40%	31.55%
DJIA	2.37%	2.37%	2.37%	30.19%
MSCI EAFE	2.45%	2.45%	2.45%	25.93%
MSCI Emerging Markets	3.68%	3.68%	3.68%	39.41%
Russell 2000	1.61%	1.61%	1.61%	15.20%

Source: Bloomberg

Fixed Income Index	**Month-to-Date**	**Year-to-Date**	**12-Month**
U.S. Broad Market	–0.32%	–0.32%	3.03%
U.S. Treasury	–0.39%	–0.39%	1.73%
U.S. Mortgages	–0.17%	–0.17%	2.31%
Municipal Bond	–0.03%	–0.03%	4.89%

Source: Morningstar Direct

What to look forward to

There will be two major data releases to pay attention to this week, both on Friday.

The first data release will be the Consumer Price Index. The headline series, which includes both food and energy, is expected to decline from 0.4 percent in November to 0.2 percent in December, driven largely by declining gasoline prices. The annual figure is expected to decline from 2.2 percent to 2.1 percent. The core inflation number, on the other hand, which excludes food and energy, is expected to rise on a monthly basis from 0.1 percent in November to 0.2 percent in December, which would leave the annual figure at 1.7 percent. If these numbers come in as expected, they would remain consistent with past performance, and there would be no significant market impact.

The second data release will be retail sales. The headline number, including auto sales, is expected to drop from 0.8 percent in November to a still-robust 0.4 percent for December, driven by a decline in auto sales. Core retail sales, which exclude auto sales, are also expected to decline, from 1 percent in November to a still-strong 0.4 percent in December. There may be some downside risk to this figure. Overall, if the numbers come in as expected, they would indicate continued strong consumer demand growth in the fourth quarter.

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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