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Weekly Market Update, December 18, 2017

Presented by **Dawn Cramer**

General market news

- Early Monday morning, the yield on the 10-year Treasury opened at 2.36 percent and the 30-year opened at 2.69 percent, both below where they stood on Wednesday before the Federal Reserve (Fed) raised its benchmark fed funds rate by 25 basis points. The 2-year opened at 1.85 percent, remaining where it stood last Wednesday. The yield curve continues to flatten with the Fed's help. With three projected rate hikes next year (which the market currently does not believe), we could see an inverted yield curve.
- U.S. markets were strong last week as investors anticipated tax cuts. The S&P 500 ended at a record level of 2,675, posting a gain of 0.95 percent. The Dow Jones continued to rise with a gain of 1.34 percent, and the Nasdaq Composite had the strongest gains, adding 1.43 percent to the technology-heavy index.
- Last-minute changes to the tax bill caused late-week volatility, but it smoothed out on Friday when key GOP members announced that they would sign the bill.
- Overseas, major European equity indices were down, partially due to expiring futures and options. The European Central Bank (ECB) announced it was expecting higher growth and inflation through 2020. The ECB is keeping its bond-buying program and lending rates unchanged, however. Finally, the Bank of England announced on Thursday that it would maintain its bank rate of 0.50 percent—despite a five-year-high inflation rate.
- Last week's economic data was mainly positive, with solid inflation figures and strong sales data. On Tuesday, the Producer Price Index showed annual inflation of 3.1 percent. On Wednesday, the Consumer Price Index rose by a benign 2.2 percent, annualized.
- On Wednesday, the Fed increased the federal funds rate by 25 basis points to 1.50 percent. This decision was widely anticipated, and it indicates that the Fed is still confident in the current economic expansion.
- Finally, on Thursday, retail sales data came in much higher than expected. October sales grew 0.8 percent against expectations for a smaller gain. August and September figures were also revised upward, taking this important measure of consumer spending to a multiyear high.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.95%	1.34%	21.86%	20.70%
Nasdaq Composite	1.43%	1.33%	30.23%	28.51%
DJIA	1.34%	1.81%	27.75%	27.19%
MSCI EAFE	0.14%	0.24%	22.90%	24.45%
MSCI Emerging Markets	0.71%	0.26%	32.68%	33.67%
Russell 2000	0.61%	–0.37%	14.17%	13.50%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.55%	3.64%	4.80%
U.S. Treasury	0.51%	2.51%	3.47%
U.S. Mortgages	0.33%	2.48%	3.73%
Municipal Bond	0.95%	5.34%	6.27%

Source: Morningstar Direct

What to look forward to

The week ahead looks very positive for economic data. Both the consumer and business sectors are expected to show continued growth at very healthy levels.

On Monday, the December survey from the National Association of Home Builders came in at 74—well above the November level of 70, which was itself an eight-month high. Developers are clearly feeling very confident.

On Tuesday, housing starts for November will be released. They are expected to pull back from 1.29 million to 1.25 million due to a decline in volatile multi-family starts. Single-family home starts are expected to continue to gain, however, suggesting that the decline is not fundamental. This is further supported by the strong industry confidence report.

Also supporting this idea, on Wednesday, November's existing home sales report is expected to increase from 5.48 million sales in October to 5.53 million in November. Although these numbers remain lower than a year ago, recent trends continue to be positive. On Friday, new home sales are expected to pull back from 685,000 in October to 651,000 in November after a series of strong gains. In both sales reports, limited inventory is a major factor. Overall, if the numbers come in as expected, we can conclude that the housing sector remains healthy, which should boost economic growth.

Also on Friday, the personal income and spending report will be released. Income growth is expected to stay steady at a strong 0.4 percent in November, the same as it was in October. Although wage growth remains constrained, the growth in the number of jobs and average hours worked may push this result higher than 0.4 percent. Personal spending growth is expected to tick up from 0.3 percent in October to 0.4 percent in November. This increase likely would be due to the recent strong retail sales report, despite declines in auto sales and gas prices. Overall, these numbers would indicate continued healthy growth in the consumer sector.

Finally, on Friday, the durable goods orders report is also expected to show strong growth. The headline orders are expected to shift from a decline of 0.8 percent to a gain of 1.8 percent on a rebound in transportation orders, particularly in aircraft. This data series is always volatile because of the inclusion of transportation; core orders, which exclude transportation, are a much better economic indicator. They are expected to slow from 0.9-percent growth in October to a still strong 0.5 percent in November. Core orders are now rising at their fastest pace since 2011, suggesting that business confidence and investment remain strong.

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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