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Weekly Market Update, February 26, 2018

Presented by **Dawn Cramer**

General market news

- The yield on the 10-year Treasury moved noticeably lower last week and opened at 2.84 percent on Monday morning. This decline was echoed by the 30-year, which started the week at 3.13 percent.
- The market was relatively calm during the holiday-shortened week, after a significant rally in the previous week. The three major U.S. indices ticked up slightly, with the Nasdaq Composite posting the largest gain of 1.36 percent. The technology sector was the top performer, followed by materials and energy.
- The macroeconomic highlight last week was the release of the minutes from the Federal Reserve's (Fed) January meeting. The minutes offered a mostly upbeat view of the economy. It is important to note, however, that this meeting took place before the release of wage and Consumer Price Index data that demonstrated signs of rising inflation. According to CNBC, Goldman Sachs sees a greater than 95-percent chance of a Fed hike in March.
- Last week was relatively quiet on the economic news front, as only one major data point was released. On Wednesday, despite expectations for a modest increase, existing home sales in January declined, following a decline in December.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.58%	–2.53%	3.05%	18.54%
Nasdaq Composite	1.36%	–0.88%	6.45%	27.08%
DJIA	0.36%	–2.96%	2.74%	24.49%
MSCI EAFE	–0.43%	–3.89%	0.93%	20.71%
MSCI Emerging Markets	1.42%	–2.96%	5.18%	31.08%
Russell 2000	0.38%	–1.55%	1.01%	12.55%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.99%	–2.13%	0.28%
U.S. Treasury	–0.81%	–2.16%	–0.85%
U.S. Mortgages	–0.67%	–1.83%	–0.07%
Municipal Bond	–0.28%	–1.46%	2.59%

Source: Morningstar Direct

What to look forward to

This week, five major economic reports will give us a detailed look at both consumers and manufacturing.

On Monday, the new home sales report dropped from 643,000 in December to 593,000 in January, well below expectations for 647,000. This was partially offset by an upward revision to December's data, but it was still a weak report. Labor and material shortages have contributed to weak construction levels, so this probably is more reflective of the supply side than the demand side, but it will bear watching.

On Tuesday, the durable goods orders report is expected to show a substantial drop in headline growth, from a positive 2.8 percent in December to a negative 2.5 percent in January. The headline number is volatile, as it is driven by large variations in aircraft orders, so this drop is less worrying than it seems. The core orders number, however, is also expected to decline, though by much less. Strong growth of 0.7 percent in December is expected to drop back to a still healthy growth level of 0.3 percent in January. There may be some downside risk here, indicating that business investment is likely to slow from the last quarter.

Also on Tuesday, the Conference Board's consumer confidence survey will be released. It is expected to do somewhat better, ticking up from 125.4 to 126.0, both of which are very high levels. With the effects of the recent tax cut showing up in paychecks, some upward bump is reasonable. On the other hand, rising gas prices and the stock correction earlier this month may present some downside risk. In any event, this is a high level of confidence and should continue to support the economy.

On Thursday, the personal income and spending report will give us a look at the facts underlying the consumer confidence report. Income growth is expected to drop from 0.4 percent in December to 0.2 percent in January, still a reasonably healthy level. There is some downside risk here on a decline in hours worked. Personal spending is expected to show the same pattern, down from 0.4-percent growth in December to 0.2-percent growth in January. Here, the underlying data is somewhat worse, with much of the gain coming from higher gas prices, rather than more constructive spending growth.

Finally, on Thursday, the Institute for Supply Management's Manufacturing index is expected to tick down from 59.1 in January to 58.7 in February. Manufacturing continues to be supported by a weak dollar and strong global growth, so it should continue to be additive to the economy as a whole.

The other potentially significant economic news this week will come from the new chair of the Federal Reserve, Jerome Powell. He will offer testimony before Congress on Tuesday and Thursday. While markets are expecting a rate hike in March, his testimony will be watched for hints about further rate increases this year.

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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