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Weekly Market Update, March 19, 2018

Presented by **Dawn Cramer**

General market news

- The 10-year Treasury yield was the same this Monday morning as it was a week ago: 2.87 percent. It still seems to be moving within a range, however, as it was as low as 2.79 percent midweek last week. In fact, the 10-year has moved between 2.78 percent and 2.95 percent over the past 30 days on low volatility. Breaking above 3 percent will be difficult, and even if it does happen, the level will likely be hard to maintain for an extended period.
- The S&P 500, Nasdaq Composite, and Dow Jones Industrial Average were all down more than 1 percent last week. Due to the pullback in the 10-year Treasury yield during the week, bond proxies in the utilities, real estate, and telecom sectors were among the top performers.
- The week featured a slew of news from Washington. The week began with President Trump blocking Singapore-based Broadcom's acquisition of U.S.-based Qualcomm, citing national security concerns. On Tuesday, Rex Tillerson was removed from his role as secretary of state. This was followed by the appointment of Larry Kudlow as chief economic advisor on Wednesday. On Thursday, special counsel Robert Mueller subpoenaed the Trump Organization for documents related to Russia's meddling in the 2016 presidential election. The newly implemented trade tariffs on steel and aluminum were in the news as well, as the European Union and Japan requested exemptions from the trade restrictions.
- The release of major reports concerning inflation, spending, and housing made last week a busy one for economic data. On Tuesday, Consumer Price Index growth came as expected at 2.2-percent year-over-year. On Wednesday, Producer Price Index growth came in slightly lower than expected at 2.5 percent. Both of these measures sit near the 2-percent inflation target set by the Federal Reserve (Fed), which means further inflation growth may lead to additional rate hikes.
- Also on Wednesday, retail sales data was released, indicating a 0.1-percent decline in February. The core figure, which strips out volatile transportation spending, was stronger, with 0.3-percent growth in the month. Nevertheless, the decline in the headline figure was disappointing, given the boost to disposable income resulting from recent tax reform.
- Finally, on Friday, housing starts and building permits both declined by more than expected in February. Given low supply levels and rising housing prices, it appears as if homebuilders may be feeling the pinch of higher labor and material costs. This will be an important sector of the economy to monitor.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–1.20%	1.52%	3.38%	17.86%
Nasdaq Composite	–1.02%	2.94%	8.64%	28.15%
DJIA	–1.51%	–0.22%	1.47%	21.97%
MSCI EAFE	0.22%	–0.17%	0.11%	17.30%
MSCI Emerging Markets	0.52%	1.58%	5.00%	29.23%
Russell 2000	–0.65%	4.96%	3.53%	15.93%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.09%	–2.00%	1.32%
U.S. Treasury	0.27%	–1.83%	0.42%
U.S. Mortgages	0.15%	–1.67%	0.89%
Municipal Bond	0.10%	–1.37%	3.23%

Source: Morningstar Direct

What to look forward to

This week, all eyes will be on the Fed. On Wednesday, the Fed will release its statement for the March meeting, which is widely expected to show a 25-basis-point increase in interest rates. This will be followed by a press conference at which new Fed Chair Jerome Powell will have his first chance to explain his thinking in this format. Markets will be looking for hints about whether and when more rate hikes will be coming.

Housing is another focus this week. The existing home sales report, released on Wednesday, is expected to show that sales rose from 5.38 million to 5.43 million in February. This would be only a partial recovery after last month’s significant decline. On Friday, the new home sales report is also expected to show a gain for February, from 593,000 to 620,000. Again, this would represent only a partial recovery after a significant decline. In conjunction with the recent pullback in builder confidence, these reports will give us an indication of how the housing market is trending.

Finally, on Friday, the durable goods orders report may show better news for business investment. The headline index, which includes transportation, is expected to recover from a monthly drop of 3.6 percent in January to a gain of 1.6 percent in February, on a recovery in the extremely volatile aircraft orders segment. The core orders report, which excludes transportation and is a better indicator for the general economy, is also expected to improve, from a decline of 0.3 percent to a gain of 0.5 percent. This would be a positive sign, suggesting that business investment is not slowing as much as earlier data had suggested.

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