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Weekly Market Update, April 9, 2018

Presented by Dawn Cramer

General market news

- Rates were slightly higher last week. The yield on the 10-year Treasury broke 2.80 percent to the upside, though it was back below that level on Friday and opened Monday at 2.79 percent. The 30-year spent much of last week below 3 percent, though it opened Monday at 3.03 percent. The 2-year, meanwhile, was as high as 2.30 percent last week and opened this week at 2.28 percent. The difference between the 2-year and 10-year stands at about 50 basis points (0.50 percent), whereas the difference between the 2-year and the 30-year is 74 basis points (0.74 percent).
- All three major U.S. indices were down last week as rhetoric between the U.S. and China heated up. The Nasdaq Composite Index posted the largest decline of 2.08 percent. The tech-heavy index suffered in the wake of President Trump's continued comments on potential legal action he could take against Amazon (AMZN). Volatility also increased following a disappointing U.S. employment report and increasing global lending costs.
- At the end of the week, markets digested news that the U.S. would potentially add another \$100 billion in tariffs on Chinese products. This was a different story than the previous week's news that the U.S. and China were discussing trade deals. In his March Senate Finance Committee testimony, U.S. Trade Representative Robert Lighthizer stated that he "anticipates about 60 days worth of public comment on a soon-to-be published tariff list." As a result, it could be some time before the volatility surrounding fears of a trade war subsides.
- Turning to economic news, the Institute for Supply Management (ISM) Manufacturing index was released last week. Although the index came in below expectations at 59.3, the still-strong reading indicates that the economy is primed to expand at a healthy pace.
- The ISM Nonmanufacturing index came in at 58.8, close to the consensus of 59. This result also indicates that the economy is growing at a healthy pace. We do see some signs of capacity stress, however, with supplier deliveries taking longer and prices rising.
- Finally, on Friday, we saw a relatively weak March employment report. Only 103,000 jobs were created, against expectations for 175,000. This follows the strong February report, however, and brings the first-quarter average to 202,000 jobs created per month, which is slightly below the fourth-quarter average of 221,000. The unemployment rate remained at 4.1 percent for the sixth straight month, while the participation rate declined by 0.1 percent to 62.9 percent. Average hourly earnings growth came in at consensus with 0.3-percent growth month-over-month and 2.7-percent growth year-over-year. Overall, this report will likely tamp down pressure on the Federal Reserve (Fed) to increase its planned pace of rate hikes.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-1.35%	-1.35%	-2.10%	12.63%
Nasdaq Composite	-2.08%	-2.08%	0.46%	18.88%
DJIA	-0.67%	-0.67%	-2.62%	18.53%
MSCI EAFE	0.50%	0.50%	-0.92%	16.64%
MSCI Emerging Markets	-0.73%	-0.73%	0.64%	23.77%
Russell 2000	-1.04%	-1.04%	-1.12%	12.36%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.05%	-1.51%	0.98%
U.S. Treasury	-0.15%	-1.33%	0.15%
U.S. Mortgages	-0.01%	-1.20%	0.61%
Municipal Bond	0.00%	-1.11%	2.22%

Source: Morningstar Direct

What to look forward to

Inflation will be the focus this week, with producer and consumer prices due in the first half.

On Tuesday, the headline producer prices report is expected to show a 0.1-percent increase for March, down from a 0.2-percent increase in February due to lower energy prices. On an annual basis, the change is expected to move from 2.8 percent to 2.9 percent. The core index, which excludes food and energy and so is thus a better economic indicator, is expected to increase by 0.2 percent for March, as it did in February. The annual figure also is expected to increase from 2.5 percent to 2.6 percent. This would be a six-year high in producer prices, reflecting the dollar's depreciation and the consequent rise in import prices. These results are well above the Fed's target range and would boost the chances for a rate hike in June.

On Wednesday, we'll get a look at consumer prices. The headline index is expected to drop from 0.2-percent growth in February to flat in March—again due to a decrease in gas prices. The annual figure, though, is expected to tick up from 2.2 percent to 2.3 percent, as weak March data from 2017 drops out of the calculation. Core inflation, which excludes food and energy, is expected to remain stable at a 0.2-percent growth rate for March. But the annual figure is expected to rise to 2.1 percent from 1.8 percent. As with producer prices, these figures are above the Fed's target and would support a rate increase if they come in as expected.

Speaking of the Fed, on Wednesday the central bank will release the notes from the March meeting of its Open Market Committee. The notes will provide more details on the Fed's decision to raise rates last month, as well as what would drive more hikes this year. As the Fed voters are split on how many increases this year would be appropriate, markets will examine the minutes closely in the context of the inflation data for suggestions that rate increases might come faster than expected.

Finally, on Friday, the University of Michigan will release its consumer confidence survey. Sentiment is expected to tick down from a very high 101.4 in March to a still high 101.0 in April. There is probably some downside risk here, as recent turmoil in the financial markets may have shaken confidence, but the strong job market and low gas prices should keep confidence elevated. High confidence would be constructive for the economy going forward.

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