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Weekly Market Update, May 29, 2018
Presented by **Dawn Cramer**

General market news

- The 10-year Treasury yield dropped to as low as 2.79 percent early Tuesday, while the 30-year opened at 3.05 percent and the 2-year at 2.44 percent. The 10-year had been as high as 3.12 percent a little less than two weeks ago. The steepness of the yield curve (i.e., the spread between short and long rates) reached a new cycle low on Tuesday morning, with the spread between the 2-year and 10-year dropping to 41.5 basis points.
- The three major U.S. indices were up, although there was a mixed underlying story within the sectors. Up more than 1 percent, the Nasdaq Composite led the way, as technology stocks Microsoft, Netflix, and Apple were all major contributors to the S&P 500's positive performance. Micron stock was also up, with the company announcing a $10 billion share buyback. The energy sector was the largest drag on the market as concerns mounted that OPEC and Russia will dial back their production cuts.
- There was some positive news surrounding trade talks between the U.S. and China. The two countries are looking at a deal to save ZTE in exchange for a change in firm management. Other points of discussion were a Chinese ramp-up in purchases of U.S. agriculture and potential U.S. tariffs on auto imports.
- The top-performing sectors were utilities, REITs, and technology. Those with the worst performance included energy, materials, and financials.
- Last week was relatively quiet on the economic news front. On Wednesday, new home sales showed a decline of 1.5 percent in April. On Thursday, existing home sales also showed weakness, dropping by 2.5 percent. Given increasing housing prices, low levels of supply, and rising mortgage rates, these measures of home ownership bear watching.
- On Friday, durable goods orders came in below expectations with a decline of 1.7 percent in the headline number. While this result was weaker than expected, the core figure, which strips out volatile transportation orders, was better than expected.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.33%	2.97%	2.58%	14.91%
Nasdaq Composite	1.09%	5.35%	8.16%	21.06%
DJIA	0.18%	2.75%	1.07%	20.12%
MSCI EAFE	–1.51%	–0.91%	0.10%	9.86%
MSCI Emerging Markets	–0.01%	–2.19%	–1.18%	15.00%
Russell 2000	0.03%	5.61%	6.43%	19.13%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.19%	–2.01%	–0.60%
U.S. Treasury	0.24%	–1.75%	–1.17%
U.S. Mortgages	0.22%	–1.47%	–0.56%
Municipal Bond	0.68%	–0.80%	0.95%

Source: Morningstar Direct

What to look forward to

This week's economic news will give us a broad look at the economy.

On Thursday, the personal income and spending report is expected to show that income growth remained steady at 0.3 percent for April (the same as in March), while spending growth also remained steady at 0.4 percent. Given the inflation factor of 0.2 percent, these numbers would signal reasonable real growth rates. While some of the spending gain will come from rising gas prices, control group sales are expected to rise as well, suggesting that spending growth remains healthy.

On Friday, the employment report is expected to show job growth picked up from 164,000 in April to 190,000 in May. If so, this would be the highest level in the past two months, pushing the six-month average growth rate even higher. Much of the recent job growth has come from construction, manufacturing, and mining—a positive sign as these jobs are often high paying. Wage growth is expected to tick up from 0.1 percent in April to 0.3 percent in May, while the annual rate is expected to rise from 2.6 percent to 2.7 percent. The unemployment rate is expected to hold steady at 3.9 percent. Overall, if the report meets expectations, it would suggest the jobs market continues to be very strong and provide grounds for the Federal Reserve to raise rates in June.

Finally, also on Friday, the Institute for Supply Management (ISM) Manufacturing index is expected to rise from 57.3 to 58.1. This is a diffusion index, where values above 50 indicate expansion. As such, this would be a very positive report. Regional surveys have been strong, and there may be some upside potential here.

Overall, if the reports come in as expected, they would signal accelerating growth and confirm that the first-quarter slowdown continues to subside.

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Disclosures: *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million.*

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