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Weekly Market Update, May 7, 2018

Presented by **Dawn Cramer**

General market news

- The yield on the 10-year Treasury opened at 2.94 percent Monday morning, in line with where it spent most of last week. Meanwhile, the 30-year stood at 3.10 percent, while the 2-year was at 2.49 percent. The yield curve remains at its flattest level of this current cycle. The Federal Reserve (Fed) decided not to raise rates last week, which would have put more flattening pressure on the curve. It seems likely the Fed will raise rates in June, however.
- U.S. markets were mixed last week, as trade talks and earnings season continued to grab the majority of headlines. The technology-focused Nasdaq Composite was up 1.29 percent as slower smartphone demand weighed less on earnings from Apple (AAPL) than expected. In fact, earnings this quarter have remained strong. According to FactSet, the estimated blended growth rate for first-quarter earnings for the S&P 500 Index is now at 24.2 percent. Despite the high rate, some companies continue to cite rising input and labor prices as reasons for potentially softer guidance moving forward.
- The Chinese-U.S. trade talks concluded in a stalemate, with neither side wanting to make concessions. In other trade-related news, the U.S. did extend temporary exemptions for steel and aluminum tariffs to Canada, Mexico, and the European Union. The exemptions are set to expire in June.
- Last week was a busy one for economic data. On Monday, personal income and personal spending figures for March came in largely in line with expectations, at 0.3-percent growth and 0.4-percent growth, respectively.
- On Tuesday, the Institute for Supply Management (ISM) Manufacturing index declined to 57.3 from 59.3. This was below estimates for a reading of 58.5. On Thursday, the ISM Nonmanufacturing index also declined, dropping from 58.8 to 56.8. Both of these measures of business confidence remain in expansionary territory, so these declines are not alarming; however, further drops should be monitored.
- Finally, on Friday, the April employment report was released. The economy added 164,000 new jobs against expectations for 185,000. The underemployment and unemployment rates both dropped, to 7.8

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.21%	0.61%	0.23%	13.67%
Nasdaq Composite	1.29%	2.05%	4.77%	19.94%
DJIA	–0.19%	0.42%	–1.22%	18.52%
MSCI EAFE	–0.42%	–0.51%	0.44%	13.15%
MSCI Emerging Markets	–1.69%	–2.39%	–1.38%	18.91%
Russell 2000	0.62%	1.55%	2.35%	14.20%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.08%	–2.27%	–0.17%
U.S. Treasury	–0.01%	–1.99%	–0.80%
U.S. Mortgages	0.04%	–1.65%	–0.17%
Municipal Bond	0.48%	–0.99%	1.93%

Source: Morningstar Direct

What to look forward to

The main focus of this week's economic data is prices, though we'll get a look at consumer confidence at the end of the week as well.

Wednesday's producer prices report is expected to show that headline price growth moderated from 0.3 percent in March to 0.2 percent in April. There is significant upside risk here, however, as energy prices have increased across the board. On an annual basis, producer price growth is expected to drop from 3 percent in March to 2.8 percent in April, which would still be a high figure. Here as well there is risk that inflation could move higher.

Core producer prices, which exclude energy, are also expected to moderate, from 0.3-percent growth in March to 0.2-percent growth in April. Here, though, there is less upside risk as energy prices are not included. On an annual basis, growth in core producer prices is expected to tighten from 2.7 percent to 2.4 percent. This would still put price growth above the Fed's 2-percent inflation target, suggesting that more rate hikes are on the way.

Thursday's consumer prices report is expected to show the opposite, with the headline index rising from a decline of 0.1 percent in March to a gain of 0.3 percent in April. This would take the annual figure from 2.4 percent to 2.5 percent, again primarily on rising energy prices. Core prices, which exclude food and energy, are expected to show constant growth, at 0.2 percent for both March and April. Due to base effects, however, the annual figure is expected to rise from 2.1 percent in March to 2.2 percent in April. Again, this would be above the Fed's target, suggesting that rates will keep rising.

Finally, on Friday, the University of Michigan consumer confidence survey is expected to pull back slightly, from 98.8 in April to 98.3 in May. The survey would remain at a high level, however, consistent with continued growth, and the pullback would have no material effect. In fact, if confidence remains at the expected level, it would suggest that consumption growth is likely to rebound after a slow first quarter, which would be constructive for the economy.

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