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## **Weekly Market Update, June 11, 2018** *Presented by Dawn Cramer*

### **General Market News**

- The 10-year Treasury yield opened at 2.95 percent on Monday morning, while the 30-year opened at 3.10 percent and the 2-year at 2.52 percent. The Federal Reserve (Fed) is set to raise rates this week, and we may also learn news on its outlook for the remainder of the year and any possible changes to current policy. With the yield curve at or close to its flattest in the current cycle, any slight change to policy could send it closer to possible inversion.
- The three major U.S. indices were all up last week, as recent economic data (May employment report and Institute for Supply Management [ISM] Manufacturing index) indicated strength in the U.S. fundamentals. In addition, trade tensions between China and the U.S. showed signs of easing. In fact, the *Wall Street Journal* reported that China offered to buy nearly \$70 billion in U.S. products to fend off trade tariffs. This offer came in just before the recent G7 summit.
- The top-performing sectors of the week were telecommunications, consumer discretionary, and materials. Those sectors that underperformed included utilities, energy, and technology.
- Last week was relatively quiet for economic updates. On Tuesday, the ISM Nonmanufacturing index bounced back from a slight drop in May, rising from 56.8 to 58.6. This result was better than expected and indicates that the service sectors of the economy remain confident.
- On Wednesday, the trade balance report showed strong net exports, which are expected to add to economic growth in the second quarter. This increase helped shrink the overall trade deficit to \$46.2 billion.

<b>Equity Index</b>	<b>Week-to-Date</b>	<b>Month-to-Date</b>	<b>Year-to-Date</b>	<b>12-Month</b>
S&P 500	1.66%	2.77%	4.85%	16.44%
Nasdaq Composite	1.22%	2.75%	11.29%	22.23%
DJIA	2.79%	3.75%	3.50%	22.28%
MSCI EAFE	0.96%	1.28%	0.08%	9.54%
MSCI Emerging Markets	0.54%	1.41%	-1.15%	14.37%
Russell 2000	1.51%	2.40%	9.47%	19.67%

Source: Bloomberg

<b>Fixed Income Index</b>	<b>Month-to-Date</b>	<b>Year-to-Date</b>	<b>12-Month</b>
U.S. Broad Market	-0.58%	-2.07%	-0.99%
U.S. Treasury	-0.55%	-1.65%	-1.38%
U.S. Mortgages	-0.58%	-1.58%	-0.86%
Municipal Bond	-0.11%	-0.45%	0.89%

Source: Morningstar Direct

## What to look forward to

This will be a busy week for economic news.

On Tuesday, the consumer price indices will be released. The headline index, which includes energy and food, is expected to rise by 0.2 percent for May, the same as in April. Core prices, which exclude food and energy, are also expected to rise by 0.2 percent for May, up from a 0.1-percent increase in April. Annual rates for the headline index should increase from 2.5 percent to 2.7 percent in May, up from 2.5 percent in April on base effects. The core index is expected to increase by less, up 2.2 percent for May from 2.1 percent in April. These figures are above the Fed's target range for inflation, so they will support a rate increase if they come in as anticipated.

The producer price indices will be released on Wednesday. Headline inflation is expected to increase from 0.1 percent in April to 0.3 percent in May, while the core figure should hold steady at 0.2 percent. On an annual basis, the headline index is expected to increase from 2.6 percent in April to 2.9 percent in May, while core price growth is expected to hold steady at 2.3 percent. Cost pressures on business are expected to remain strong, which will also support Fed action. The question, then, is when those pressures will feed through to consumers.

On Thursday, the retail sales report is expected to show growth, with the headline number rising from a 0.2-percent increase in April to a 0.4-percent increase in May. Core sales, which exclude autos, are also expected to rise from 0.3 percent to 0.4 percent. These numbers reflect a strong level of spending growth. The continued rebound in consumer spending is likely to help support overall faster second-quarter growth, which will likely be well above that of the first quarter.

On Friday, the industrial production report is expected to show that growth has slowed, from 0.7 percent in April to 0.3 percent in May, while manufacturing growth is expected to decline from 0.5 percent to 0.3 percent. Industrial production has benefited from the continued rise in oil drilling, and longer-term manufacturing growth still remains solid.

We'll also see the University of Michigan consumer confidence survey on Friday. It is expected to rise slightly—from 98 to 98.4—close to recent highs. This would signal continued high levels of consumer spending, although there may be some downside risk here on rising gas prices.

Finally, the regular meeting of the Fed's Open Market Committee is this week, with the release of the statement and press conference on Wednesday. The Fed is widely expected to raise rates again at this meeting, and such an increase is already priced in to markets. What will be key is what the Fed indicates about future rate hike expectations.

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