DECEMBER 3, 2018

Weekly Market Update

General Market News

- Rates moved lower last week, breaking some support levels. The 10-year Treasury dropped below 3.05 percent and opened Monday morning at 3.03 percent. The short end of the curve has tightened, with the difference between the 2- and 5-year Treasuries only 3.5 basis points (bps). The spread had been as low as 2.5 bps last Friday. The 30-year Treasury stands at 3.32 percent. The difference between the 2- and 30-year Treasuries is now back down to only 48 bps.

- All three major U.S. markets were up last week, as the market waited for the G20 meeting. West Texas Intermediate crude oil dropped below $50 on continued global supply-demand concerns. Russia and Saudi Arabia opened discussions relating to the oil trade to extend the OPEC accord. Tailwinds are expected to come from U.S.-China trade talks, which can reduce the pressures that U.S. businesses face. Overall, the macro news for U.S. markets was positive.

- Several important economic updates were released last week. On Tuesday, the Conference Board Consumer Confidence Index declined slightly, as expected. This result was in line with a similar decline in the University of Michigan consumer sentiment survey released the week before.

- On Wednesday, the second estimate of third-quarter gross domestic product growth remained unchanged, at 3.5 percent on an annualized basis. Also on Wednesday, new home sales came in much worse than expected, falling 8.9 percent against expectations for a gain of 4 percent.

- On Thursday, October's personal spending and personal income figures were released. Both reports beat expectations, growing 0.6 percent and 0.5 percent, respectively.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	4.91	2.04	5.11	6.27
Nasdaq Composite	5.66	0.50	7.24	7.75
DJIA	5.32	2.11	5.59	7.62
MSCI EAFE	0.97	–0.01	–8.96	–7.48
MSCI Emerging Markets	2.65	4.13	–11.96	–8.75
Russell 2000	3.04	1.58	0.98	0.57

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.60	–1.79	–1.34
U.S. Treasury	0.89	–1.27	–0.96
U.S. Mortgages	0.90	–0.81	–0.49
Municipal Bond	1.11	0.08	1.13

Source: Morningstar Direct

What to Look Forward To

This week is a busy one, with several key reports scheduled for release. The data flow started Monday, when the Institute for Supply Management (ISM) Manufacturing index surprised to the upside. It rose from 57.7 to 59.3, above the expected 57.5. This is a diffusion index, where values above 50 indicate expansion and below 50 indicate contraction. So, this metric remains quite strong. The increase came despite slowing global growth and the recent appreciation in the dollar, which has been increasing the costs of U.S. products to foreign buyers. Uncertainty over trade policy remains a headwind as well. Despite these concerns, the increase suggests that the damage has not yet been significant, and manufacturing will remain positive for the overall economy.

On Wednesday, the ISM Nonmanufacturing index is expected to pull back a bit further, from 60.3 to 59.5, after a surprise increase in September to a 21-year high. This is a diffusion index, too, where values above 50 indicate expansion and below 50 indicate contraction. The pullback is expected to come from slowing growth in services. With some surveys indicating more of a slowdown in this sector, there is likely some downside risk here. But even with a larger pullback than the decline expected, this would remain very positive for the overall economy.

What to Look Forward To (continued)

On Thursday, the international trade report is expected to show that the U.S. trade deficit widened further in November, from $54 billion to $54.9 billion. We already know from the advance report that the trade deficit in goods widened because export growth has dropped back—even as imports have remained steady. Consequently, there may be some additional downside risk to this report. Overall, if the numbers come in as expected, trade will likely be a drag on fourth-quarter growth.

The University of Michigan consumer confidence survey, to be released on Friday, is expected to show confidence pulling back further from 97.5 for November to 97 for December. This would remain a high level, historically. It suggests that consumers are not yet worried about the effects of a trade war, given the continued strong labor market and decline in gas prices. These factors should continue to support consumer spending and economic growth.

Finally, Friday's employment report is expected to show that job growth continued to be strong in November, with a gain of 205,000, after an October surge of 250,000. The unemployment rate is expected to stay at a very low 3.7 percent. In addition, wage growth is expected to tick up a bit, from 0.2 percent in October to 0.3 percent for November. Wage growth on an annual basis is also expected to rise, from 3.1 percent to 3.2 percent, on base effects. There is some downside risk here, depending on the impact of the California fires. But if the numbers come in as expected, this would be another healthy report and signal continued economic growth. It would also likely support another rate hike from the Federal Reserve in December.

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