JULY 9, 2018

Weekly Market Update

General Market News

- On Monday morning, the 10-year, 30-year, and 2-year Treasuries opened at 2.82 percent, 2.93 percent, and 2.53 percent, respectively. The difference between short rates and long rates is at the narrowest level we've seen during the current economic expansion—pushing the yield curve flatter. Historically, the curve has been a good indicator of oncoming recessions, and it's now beginning to show signs that one may be on the horizon.

- After two consecutive weeks of losses for U.S. markets, performance turned around last week on news of a strong jobs report and generally positive sentiment from the Federal Open Market Committee meeting minutes. The Russell 2000 led the way up, followed by the Nasdaq Composite. Biogen (BIIB) was up more than 23 percent following positive results from its experimental Alzheimer's drug, BAN2401. This move helped push health care to the top spot for sector performance, with utilities and technology rounding out the top three. Energy, financials, and materials were among the worst-performing sectors.

- The U.S. implemented $34 billion in tariffs on Chinese exports on Friday. China was quick to answer back with $34 billion of its own tariffs on 545 U.S. exports, including soybeans, cotton, and tobacco. Both moves could increase risk and uncertainty in the markets.

- Last week's major data releases came in better than expected, as business confidence rose and jobs were added to the economy. On Monday, the Institute for Supply Management (ISM) Manufacturing index increased to 60.2 against expectations for a slight decline. This optimism was echoed by the ISM Nonmanufacturing index, which also moved higher despite expectations for a slight pullback.

- On Friday, the June employment report showed that 213,000 new jobs were added, against expectations for 200,000. In addition, wage growth remained steady at 2.7 percent on an annual basis.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.56	1.56	4.25	16.73
Nasdaq Composite	2.40	2.40	12.00	27.64
DJIA	0.82	0.82	0.09	17.33
MSCI EAFE	0.57	0.57	–1.85	8.02
MSCI Emerging Markets	–0.68	–0.68	–7.24	8.04
Russell 2000	3.12	3.12	11.03	22.47

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.24	–1.38	0.21
U.S. Treasury	0.18	–0.90	–0.02
U.S. Mortgages	0.10	–0.86	0.50
Municipal Bond	0.14	–0.11	1.89

Source: Morningstar Direct

What to Look Forward To

This week's releases will focus on prices, as well as provide a look into consumer confidence.

On Wednesday, the Producer Price Index is expected to rise by 0.2 percent in the headline number, which includes energy and food. This result would be down from a 0.5-percent increase in May and would be due largely to flat gasoline prices and tariff-driven increases in other input prices. The annual change for the headline index is expected to remain stable at 3.1 percent, indicating that longer-term pressures are keeping inflation elevated above the Federal Reserve's (Fed's) 2-percent target. The core number, which excludes energy and food, is expected to tick up from 0.1 percent in May to 0.2 percent in June. The annual figure should remain solid at 2.6 percent. Overall, these figures are steady in aggregate. Beneath the surface, however, tariffs are driving faster input inflation.

On Thursday, the Consumer Price Index is likely to show steady inflation. The headline number is expected to rise by 0.2 percent in June, just as it did in May. The annual figure should increase from 2.8 percent in May to 2.9 percent in June on base effects. Similarly, the core number is expected to remain steady at 0.2 percent for June and tick up from 2.2 percent

What to Look Forward To (continued)

to 2.3 percent on an annual basis. As with the Producer Price Index, these figures indicate that inflation continues to run above the Fed's target, driving interest rate increases.

On Friday, we'll see the University of Michigan consumer confidence survey. It is expected to remain steady at a high 98.2, the same as in June. A small rise is possible, with the stock market moving back up and gas prices holding steady. But those factors may have been offset by rising concerns around trade. In any event, if confidence stays at the current elevated level, it would be a positive signal for continued growth.

Authored by the Investment Research team at Commonwealth Financial Network.