

WeeklyMarket Update



General Market News

- The 10-year Treasury yield remained range-bound between 2.95 percent and 3 percent last week. Meanwhile, the 30-year opened Monday at 3.11 percent, and the 2-year stood at 2.53 percent. As the yield curve continues to flatten, the risk of an inverted yield curve—where short-term rates are higher than long-term rates—is rising. Historically, an inverted yield curve has been a good indicator of impending recession.
- The U.S. markets experienced a risk-on rally last week, with energy, technology, financials, and industrials all up more than 3 percent. Strength in oil helped bolster the performance of some of the more cyclical sectors. West Texas Intermediate and Brent crude gained 1.5 percent and 3 percent, respectively. With investors more interested in risk assets, bond proxies in the utilities, consumer staples, and REIT sectors struggled.
- Markets also were buoyed by inflation news (more below), as well as by more positive sentiment surrounding U.S.-China trade talks. The White House confirmed last week that China's top economic official, Vice Premier Liu He, would be traveling to Washington for additional trade discussion.
- Turning to economic updates, last week was relatively quiet outside of inflation data. On Wednesday, the Producer Price Index moderated somewhat, coming in at 2.6-percent growth on an annual basis. This result may help offset some fears about rising prices.
- On Thursday, the Consumer Price Index came in at 2.5-percent year-over-year growth. This result was in line with expectations. Inflation figures will be watched closely for the rest of the year as the Fed continues to hike rates.
- Finally, on Friday, the University of Michigan consumer sentiment survey beat expectations by staying unchanged at 98.8. This high level of consumer confidence is encouraging and should spur spending growth in the second quarter.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	2.49	3.11	2.72	16.16
Nasdaq Composite	2.73	4.84	7.63	22.33
DJIA	2.51	2.94	1.26	21.45
MSCI EAFE	1.64	1.08	2.09	14.46
MSCI Emerging Markets	2.52	0.07	1.11	19.41
Russell 2000	2.65	4.25	5.06	17.07

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	-0.09	-2.28	-0.38
U.S. Treasury	-0.12	-2.10	-1.02
U.S. Mortgages	-0.04	-1.73	-0.37
Municipal Bond	0.69	-0.79	1.87

Source: Morningstar Direct



What to Look Forward To

This week, we'll be looking at the economic data to see whether earlier signs of a slowdown are passing.

Tuesday's retail sales report may moderate somewhat at the headline level. Growth is expected to tick down from an extremely strong 0.6 percent in March to a still healthy 0.4 percent in April. There may be some downside risk here, as auto sales declined last month. A rise in gas prices should offset that, however, so any damage is likely to be limited. Core retail sales, which exclude autos, are expected to accelerate from 0.2-percent growth in March to 0.5-percent growth in April. Here, the rise in gas prices could improve this result. If growth remains strong, it will suggest that

last month's positive results are sustainable and that consumption growth is likely to exceed weak first-quarter levels going forward.

Housing is the next area where a rebound is expected. The National Association of Home Builders survey, released on Tuesday, is expected to rebound from 69 in April to 70 in May. Meanwhile, the housing starts report is expected to remain steady at 1.32 million in April, the same as in March. A drop in building permits and elevated lumber prices could weigh on this result.

Finally, on Wednesday, we'll see the industrial production report. It is expected

What to Look Forward To (continued)

to show an acceleration in the headline index from 0.5-percent growth in March to 0.6-percent growth in April, driven by gains in manufacturing output. In fact, manufacturing is expected to bounce back,

rising from 0.1-percent growth in March to 0.8-percent growth in April, due to strong growth in hours worked. This would also be a rebound from a weak first quarter and suggest faster growth ahead.

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. Rev. 05/18.

Authored by the Investment Research team at Commonwealth Financial Network.