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Weekly Market Update, January 7, 2019
***Presented by* Bruce & Dawn Cramer**

General Market News

- Rates continue to move lower as parts of the curve start to invert. The 1-year U.S. Treasury is now yielding more than the 2-, 3-, 5-, and 7-year Treasuries, and the 10-year is less than 10 basis points more than the 1-year. The 10-year was as low as 2.54 percent last week and opened at 2.63 percent early Monday. Meanwhile, the 1-year opened at 2.55 percent, the 2-year opened at 2.47 percent, and the 30-year opened at 2.94 percent. Weaker economic numbers, trade tensions, and a closed government—combined with a Federal Reserve (Fed) seeming to stick to its stance on raising rates this year—all seem to be contributing to this flight to safety trade.
- Although markets posted gains across the board, it was a volatile start to the new year. The week began with global growth concerns supported by a steep drop in the Institute for Supply Management (ISM) Manufacturing index. Fortunately, later in the week, fears were quelled by a strong December employment report, showing a strong labor market supported by an increase in wage growth. Finally, Chairman Powell spoke on Friday at the American Economic Association’s annual meeting. His comments came off as dovish, stating that “we’re listening sensitively to the messages markets are sending” and that the central bank is prepared to adjust how quickly it shrinks the balance sheet.
- Apple was one of the worst performers on the week. It cut its revenue guidance by 8 percent from the midpoint in its fourth-quarter earnings preannouncement. The softness was attributed to slower sales in China due to the trade war, currency headwinds, and lower incentives for phones by Chinese carriers.
- On Thursday, the ISM Manufacturing index fell from 59.3 in November to 54.1 in December. This steep drop-off in manufacturer confidence is worth watching; however, December’s reading still indicates continued growth, so there is nothing to be overly concerned about at this time.
- On Friday, December’s employment report came in much better than expected, with 312,000 new jobs added against expectations for 184,000. October and November figures were also revised up. This was a very strong report that demonstrates the continued health of the economy.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.90%	1.03%	1.03%	–5.21%
Nasdaq Composite	2.37%	1.58%	1.58%	–3.76%
DJIA	1.65%	0.50%	0.50%	–4.41%
MSCI EAFE	1.43%	0.98%	0.98%	–14.12%
MSCI Emerging Markets	0.25%	–0.07%	–0.07%	–16.77%
Russell 2000	3.22%	2.40%	2.40%	–10.07%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.34%	0.34%	1.61%
U.S. Treasury	0.21%	0.21%	0.44%
U.S. Mortgages	0.20%	0.20%	1.25%
Municipal Bond	0.24%	0.24%	1.37%

Source: Morningstar Direct

What to look forward to

This week’s reports cover a wide range of economic activity.

On Monday, the ISM Nonmanufacturing index pulled back a bit further than expected, from 60.7 in November to 57.5 for December. This is a diffusion index, where values above 50 indicate expansion and below 50 indicate contraction. This result still leaves it close to the 21-year high from September and well in expansionary territory. The pullback came from slowing growth in the service sector. But even with the pullback, this index remains positive for the economy as a whole.

On Tuesday, the international trade report is expected to show the trade deficit improved slightly, from $55.5 billion to $54 billion. This expected moderation suggests that the damage to exports from the current trade conflict is not getting worse, which would be positive. Overall, however, if the numbers come in as expected, trade will likely continue to be a drag on fourth-quarter growth.

On Wednesday, the minutes from the December meeting of the Federal Reserve Open Market Committee will be released. After the rate increase and hawkish tone of the postmeeting press conference upset markets, analysts will be looking to see whether the actual discussions were more dovish. If so, in conjunction with Chair Powell’s remarks last Friday, markets could react positively.

On Friday, the consumer price reports are expected to show moderating inflation at the headline level. The headline index, which includes food and energy, is expected to decline slightly. It should go down by 0.1

percent for December, from flat for November, on a decrease in gasoline costs. The annual figure is expected to drop to 1.9 percent in December from 2.2 percent in November, which would be a 17-month low. The core index is expected to stay steady at a 0.2-percent increase for December, the same as November, while the annual figure should hold at 2.2 percent. These figures indicate core inflation continues to run somewhat above the Fed's target levels, which should continue to support interest rate increases.

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