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Weekly Market Update, October 22, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- The 10-year Treasury yield opened at 3.19 percent early Monday, while the 30-year opened at 3.37 percent and the 2-year at 2.90 percent. The yield curve flattened last week. It is off its recent lows of late September but lower than the level seen after the Federal Reserve (Fed) raised rates a couple of weeks ago. With the Fed apparently ready to raise rates again in December, rate volatility is likely as the market attempts to balance economic growth and the effect of Fed action.
- U.S. equity markets were mixed last week, as investors favored more defensive investments. Not surprising, then, the more defensive Dow led the way for the three major U.S. markets, while the tech- and growth-oriented Nasdaq Composite Index lagged. Consumer staples, REITs, and utilities were among the top three performers. Consumer discretionary, energy, and materials were among the top laggards.
- After last week's steep sell-off, earnings still remain strong at approximately 19.5 percent for the third quarter, per FactSet estimates. Although this result is a sign that strength remains for U.S. markets, China saw its gross domestic product (GDP) growth fall to 6.5 percent in the third quarter compared with 6.7 percent in the second quarter. The Chinese economy continues to take actions to promote growth, including lowering its reserve requirement ratio.
- Last week saw the release of only a handful of notable economic updates. On Monday, September's retail sales data came in lower than expected, with 0.1-percent growth for the month. This follows several months of strong growth, so this is not an immediate concern but should be monitored.
- On Wednesday, both housing starts and building permits declined, as the slowdown in new housing growth continues.
- On Friday**,** existing home sales disappointed, falling 3.4 percent against expectations for a more modest loss of 0.9 percent.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.05%	–4.93%	5.11%	10.13%
Nasdaq Composite	–0.64%	–7.40%	8.78%	13.96%
DJIA	0.45%	–3.74%	4.76%	12.36%
MSCI EAFE	–0.06%	–6.23%	–7.15%	–4.78%
MSCI Emerging Markets	–0.88%	–7.24%	–14.09%	–10.59%
Russell 2000	–0.29%	–9.08%	1.39%	3.96%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.88%	–2.46%	–2.21%
U.S. Treasury	–0.70%	–2.35%	–2.37%
U.S. Mortgages	–0.88%	–1.94%	–1.74%
Municipal Bond	–0.72%	–1.11%	–1.04%

Source: Morningstar Direct

What to look forward to

This week is a busy one on the economic front, giving us a final look at housing for the month, as well as whether business investment continues to improve. We'll also get a preliminary look at how the economy performed in the third quarter.

On Wednesday, the new home sales report is expected to stay steady at 629,000. This result would be indicative of a potential pause in the ongoing housing slowdown. If the number comes in as expected, it will also signal that while housing growth continues to slow, the downtrend remains under control in one of the most economically impactful sectors.

On Thursday, the durable goods orders report will be released. The headline index is expected to pull back after a significant bounce last month. It should go from a 4.4-percent gain in August to a 1-percent decline in September, on a decrease in transportation orders. This headline index is notoriously volatile, as we can see from these numbers. The core index, which excludes transportation and is a much better economic indicator, is expected to improve from flat growth in August to 0.3-percent growth in September, on growing business investment. This would be a healthy level of growth.

Finally, on Friday, the first estimate of third-quarter growth in GDP is expected to show that economic growth slowed from 4.2 percent in the second quarter to a still healthy 3.3 percent in the third quarter. While there was some volatility in trade-related components, that is likely to have largely netted out. As such, the slowdown would be due to slower domestic economic activity. If the number comes in as expected, it would show continued healthy growth but also suggest that growth at the level of last quarter was not sustainable.

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Disclosures: *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 U.S. 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 U.S. 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.*

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