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Weekly Market Update, December 10, 2018
***Presented by* Bruce & Dawn Cramer**

General Market News

- Interest rates for U.S. Treasuries have been moving lower for a while now, but last week's declines came at a faster pace. The 10-year Treasury moved from 3.05 percent to as low as 2.82 percent early Monday morning. Of potentially greater significance, however, is that the 2- and 5-year Treasury notes inverted last week. The 2-year Treasury now yields 2.72 percent, while the 5-year Treasury is at 2.70 percent. Moreover, the spread between the 2- and 10-year Treasuries fell to 10 basis points (bps). Historically, the inversion of the spread between the 2- and the 10-year Treasuries has been a leading indicator of an economic downturn. Meanwhile, the Federal Reserve (Fed) seems likely to raise rates on December 19.
- Last week, domestic and global markets were down across the board. The week began with news of a proposed 90-day trade truce between the U.S. and China. As the days went on, however, details surrounding the deal became less clear.
- In other news, the financial sector was down more than 7 percent on the week, as the inverted spread between the 2- and 5-year Treasuries weighed on banks. Industrials, another cyclical sector, was down more than 6.2 percent, on investor concerns about the broad economic cycle.
- The Institute for Supply Management (ISM) manufacturing index increased to 59.3 from 57.7, well above the survey estimate of 57.5. This result was helped by a decline in the ISM Prices Paid index, which came in well below expectations. The ISM Nonmanufacturing index rose to 60.7 from 60.3, against expectations. Both reports indicate continued strength in the U.S. economy.
- November's employment report was released on Friday. It came in weaker than expected, with 155,000 jobs added against an expectation for 198,000. But the unemployment rate and the participation rate remained unchanged. Wage growth was unchanged as well, holding steady at 3.1 percent year-over-year.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–4.55%	–4.55%	0.32%	1.81%
Nasdaq Composite	–4.90%	–4.90%	1.98%	3.38%
DJIA	–4.44%	–4.44%	0.90%	3.08%
MSCI EAFE	–2.25%	–2.25%	–11.01%	–8.56%
MSCI Emerging Markets	–1.33%	–1.33%	–13.13%	–8.32%
Russell 2000	–5.53%	–5.53%	–4.60%	–3.53%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.85%	–0.95%	–0.77%
U.S. Treasury	0.98%	–0.30%	–0.22%
U.S. Mortgages	0.81%	0.00%	0.06%
Municipal Bond	0.73%	0.81%	0.54%

Source: Morningstar Direct

What to look forward to

This week’s data starts with prices and whether they indicate that inflation is picking up.

On Tuesday, the producer price report will be released. The headline index, which includes energy and food, should stay flat for November, down from a 0.6-percent increase in October, on declines in gasoline and commodity prices. The annual change is also expected to drop, to 2.5 percent from 2.9 percent, indicating that longer-term inflation pressures remain above the Fed’s target range, though they may be moderating. The core index, which excludes energy and food, is expected to show slower growth as well. It should come in at 0.1 percent for November, down from 0.5 percent for October. Analysts anticipate that the annual figure, however, will stay steady at 2.6 percent.

On Wednesday, the consumer price reports are expected to show moderating inflation at the headline level. The headline index, which includes food and energy, should stay flat for November, down from October’s 0.3-percent uptick, on decreasing gasoline costs. The annual figure is expected to drop to 2.2 percent in November from 2.5 percent in October. The core index will likely remain steady, showing a 0.2-percent increase for November, the same as October. The annual figure is expected to rise slightly, from 2.1 percent to 2.2 percent. These numbers indicate that inflation is still running somewhat above the Fed’s target levels, which should support continued interest rate increases.

On Friday, the U.S. retail sales report is expected to show slower growth—0.2 percent for November. A decline from October’s substantial 0.8-percent rebound, the number may be attributed to lower gas prices and a slowdown in hurricane-driven replacement auto sales. Core retail sales, which exclude autos, are expected to do well, with expected growth in November of 0.3 percent, down from October’s 0.7-percent rise. But there may be some downside risk to these numbers, with the fading of the tax cut boost and recent turbulence in the financial markets. If the numbers come in as expected, they would be at healthy levels and positive for the economy.

Also on Friday, the industrial production report is expected to tick up a bit. It should go from a 0.1-percent gain in October to a 0.3-percent rise for November. There may be some upside risk here, on a weather-related increase in utility production and a rebound in oil production after a hit from Hurricane Michael. Manufacturing is also expected to do well, with growth steady at 0.3 percent for November, the same as October. There may, however, be some downside risk, as the dollar continues to rise. Again, the expected numbers would indicate continued growth and be positive for the economy.

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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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