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Weekly Market Update, March 12, 2018

Presented by Dawn Cramer

General market news

- The yield on the 10-year Treasury opened at 2.89 percent on Monday; the 30-year and 2-year opened at 3.14 percent and 2.26 percent, respectively. Although rates have moved higher over the past five to six months, the spreads in yield between the 2-year and 10-year and between the 2-year and 30-year have remained near current-cycle lows, indicating a very flat yield curve.
- All three major U.S. indices were up more than 3 percent last week. Friday's strong employment report, which indicated that the economy added 313,000 jobs in February, helped propel markets higher. In addition, inflation fears eased, as hourly earnings dropped to an increase of 2.6 percent year-over-year. This was down from 2.9 percent in January.
- The week was not without its concerns, however. Gary Cohn, President Trump's chief economic advisor, stepped down following news that the tariffs on steel and aluminum would be implemented. As the week progressed, fears of a trade war and the affect of the tariffs eased as exemptions were put in place for Canada and Mexico. Additionally, it was stated that U.S. allies could potentially be exempt if they were to offer the U.S. concessions on trade.
- The financial sector was the top performer on the week, benefiting from the Senate's continued work on the Dodd-Frank Act, which could potentially ease regulations within the sector.
- Last week was relatively quiet in terms of major economic news. On Monday, the Institute for Supply Management's Nonmanufacturing composite declined slightly to 59.5, above expectations for a further fall to 59. This measure of confidence in the service economy remains in healthy expansionary territory.
- As mentioned above, the February employment report came in much better than expected. In addition, there were upward revisions to both December and January figures. Much of this surprise growth came from increased participation, as the participation rate ticked up from 62.7 percent to 63 percent. Unemployment remained unchanged at 4.1 percent. Going forward, the strength of the labor market likely will lead to further Federal Reserve rate hikes in 2018.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	3.59%	2.75%	4.63%	20.18%
Nasdaq Composite	4.20%	4.00%	9.76%	30.89%
DJIA	3.34%	1.32%	3.02%	24.33%
MSCI EAFE	1.88%	-0.39%	-0.11%	20.42%
MSCI Emerging Markets	2.18%	1.06%	4.46%	34.21%
Russell 2000	4.20%	5.65%	4.21%	18.98%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.13%	-2.22%	1.60%
U.S. Treasury	-0.04%	-2.15%	0.59%
U.S. Mortgages	-0.02%	-1.84%	1.21%
Municipal Bond	0.01%	-1.46%	3.41%

Source: Morningstar Direct

What to look forward to

With five major reports expected, this will be a busy week for economic news.

We'll kick things off on Tuesday with the consumer prices report. The headline number, which includes food and energy, is expected to drop from a 0.5-percent increase in January to a more modest 0.2-percent increase in February, as surges in energy prices normalize. The annual figure, however, is expected to rise from 2.1 percent to 2.2 percent. Core inflation, which excludes food and energy, is also expected to drop on a monthly basis, from 0.3 percent in January to 0.2 percent in February. The annual figure in this case, though, is expected to stay steady at 1.8 percent. If these numbers come in as expected, they would indicate stable conditions.

On Wednesday, the retail sales report is expected to show renewed strength. The headline number, including autos, is expected to rise from a 0.3-percent decline in January to a 0.3-percent increase in February, as auto sales bounce back. Core sales, which exclude autos, are expected to improve as well, from a flat result in January to a 0.4-percent increase in February. The boost in take-home pay resulting from the tax bill, along with high consumer confidence, should drive sales higher.

On Thursday and Friday, respectively, we get the National Association of Home Builders (NAHB) industry survey and the housing starts report. The NAHB survey is expected to stay steady at 72, which is a high level, although there may be some downside risk based on supply and labor shortages. After jumping to a 16-year

high in January, housing starts are expected to tick down from 1.326 million to 1.286 million, as multifamily construction drops back even as single-family construction continues to rise. These would be healthy reports if they come in as expected.

On Friday, the industrial production report is expected to improve, with the headline figure rising from a decline of 0.1 percent in January to a gain of 0.3 percent. Manufacturing is expected to show a similar gain, from flat in January to 0.3-percent growth in February. With both oil production and manufacturing showing strength, we could see even faster growth here.

Finally, and also on Friday, the University of Michigan consumer confidence survey is expected to pull back from 99.7 in February—the second-highest level since 2004—to 99.5 in March on stock market volatility. Here as well, there looks to be upside potential, given faster employment growth and strong results in other confidence surveys.

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Authored by the Investment Research team at Commonwealth Financial Network.

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