JULY 2, 2018

Weekly Market Update

General Market News

- Rates continued to drop last week, with the 10-year Treasury yield falling to a low of 2.82 percent on Friday; it opened Monday morning at 2.84 percent. Similarly, the 30-year Treasury yield hit a low of 2.95 percent last week, but it opened at 2.99 percent on Monday.
- All three major U.S. markets were down in the past week, as markets sold off broadly on continued trade concerns and the flattening of the yield curve.
- Chinese stocks entered bear territory, as the reserve ratio requirement was cut by 50 basis points (bps) in an effort to trigger increased lending. Further, the *Wall Street Journal* reported that, as a result of continued U.S.-China trade talks, firms with at least 25-percent Chinese ownership will be barred from purchasing U.S. companies with "industrially significant technology." The White House countered this claim, saying that it would expand the authority of the Committee on Foreign Investment in the United States rather than apply new investment restrictions.
- The spread between the 2-year and 10-year Treasury notes reached 30 bps, the narrowest it's been since 2007. As a result, defensive sectors—REITs, utilities, and telecom—posted the strongest performance. The industrials, health care, and consumer discretionary sectors were the worst performers, as investors moved away from growth stocks.
- Last week saw the release of a number of important data points. On Monday, new home sales beat expectations, growing by 6.7 percent against expectations for more modest 0.8-percent growth.
- On Tuesday, the Conference Board Consumer Confidence Index declined modestly yet remained near multiyear highs. On Wednesday, durable goods orders dropped by 0.8 percent for the month, as a 7-percent decline in automobile orders dragged down growth.
- On Thursday, the third and final measure of first-quarter gross domestic product (GDP) growth came in at 2 percent. This was down from the previous estimate of 2.2 percent. Second-quarter growth, however, is expected to increase meaningfully.
- Finally, on Friday, personal income and spending in May both grew, by 0.4 percent and 0.2 percent, respectively. This should help drive overall second-quarter GDP growth.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.87	1.95	4.00	15.38
Nasdaq Composite	–0.68	3.42	12.02	24.71
DJIA	–2.03	0.78	0.54	17.53
MSCI EAFE	–0.95	–0.16	–1.38	8.44
MSCI Emerging Markets	–2.26	–2.72	–5.22	10.60
Russell 2000	0.11	3.26	10.39	21.54

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.12	–1.62	–0.40
U.S. Treasury	0.02	–1.08	–0.65
U.S. Mortgages	0.05	–0.95	0.15
Municipal Bond	0.09	–0.25	1.56

Source: Morningstar Direct

What to Look Forward To

This week will be a very busy one, with a number of reports covering all aspects of the economy.

On Monday, the Institute for Supply Management (ISM) Manufacturing index will be released; it is expected to decline slightly from 58.7 in May to 58 in June. This is a diffusion index, where values above 50 indicate expansion. As such, the expected change would keep the index at a healthy level and should be positive for growth. The stronger U.S. dollar, which hurts manufacturers, as well as increasing trade conflicts may weigh on this result.

On Thursday, the ISM Nonmanufacturing index will be released; it also is expected to pull back slightly, from 58.6 in May to 58 in June. There may be some upside risk here, however, with retail sales and consumer spending doing well in response to tax cuts and high consumer confidence. As with the manufacturing index, even this slight pullback would leave the index at a healthy expansionary level.

Also on Thursday, the Federal Reserve will release the minutes from its June meeting. While there seemed to be a modest hawkish shift in the meeting statement,

What to Look Forward To (continued)

the minutes will provide insight into just how confident members are in their growth projections. The markets will be looking for details about the likely rate increases.

On Friday, the international trade report is expected to show a slight decline in the trade deficit from $46.2 billion in April to $45.4 billion in May. The deficit in traded goods declined significantly on strong export growth last month, so there may be potential for a positive surprise. If so, net exports could contribute meaningfully to second-quarter growth.

Also on Friday, the employment report is expected to show a decrease in job growth from 223,000 in May to a still strong 198,000 in June. Unemployment is expected to stay steady at 3.8 percent—the lowest level in decades. Growth in average earnings is also expected to remain solid at a healthy 0.3 percent, which would take the annual rate back up to 2.8 percent. While there may be some downside risk to the job creation numbers, if the report comes even close to expectations, it will mean good things for continued economic growth.

Authored by the Investment Research team at Commonwealth Financial Network.