Weekly Market Update

General Market News

- Rates have moved higher recently, and with the bond market closed on Monday, yields are as of October 5. The 10-year Treasury stands at 3.23 percent, and the 30-year and 2-year are at 3.40 percent and 2.88 percent, respectively. The yield curve—which had been flattening, leading to worries about inversion—has steepened over the last week or so. The Federal Reserve's (Fed's) optimism about the economy has helped. On top of a September hike in the federal funds rate to 2.25 percent, the Fed has expressed plans to raise rates in December, as well as three times in 2019.

- U.S. equity markets were mostly down last week. Investors appear to be moving out of equities in the face of rising Treasury yields and higher borrowing costs. Comments from Fed Chair Jerome Powell were seen as potentially hawkish; he stated that rates are still accommodative, and while they are moving toward a neutral level, they are still "a long way from neutral at this point."

- Markets also were likely reacting to the new trade agreement announced by President Trump—the U.S.-Mexico-Canada Agreement (USMCA)—which, if approved, will replace NAFTA. Although this is viewed as a win for the U.S., some language in the agreement could indicate an even greater divergence between North American and Chinese trade deals in the future.

- Last week was a relatively quiet one for economic updates. On Monday, the Institute for Supply Management (ISM) Manufacturing index declined slightly, as expected, going from 61.3 to 59.8. This is a diffusion index, where values greater than 50 indicate expansion, so this is still a strong level. On Wednesday, the ISM Nonmanufacturing index surprised by rising to 61.6 from 58.5.

- On Friday, the September employment report came in with mixed results: 134,000 new jobs were added, short of the expected 185,000. This headline miss is likely not as bad as it seems at first glance. Previous months were revised up by 87,000, which helps offset the shortfall. The unemployment rate fell to 3.7 percent, which is the lowest rate since 1969.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.95	–0.95	9.52	15.25
Nasdaq Composite	–3.18	–3.18	13.75	19.55
DJIA	0.00	0.00	8.83	18.75
MSCI EAFE	–2.34	–2.34	–3.31	0.85
MSCI Emerging Markets	–4.48	–4.48	–11.64	–6.79
Russell 2000	–3.78	–3.78	7.30	9.30

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.94	–2.53	–0.29
U.S. Treasury	–0.90	–2.55	–2.36
U.S. Mortgages	–0.97	–2.04	–1.84
Municipal Bond	–0.58	–0.97	–0.29

Source: Morningstar Direct

What to Look Forward To

This week's economic data digs into pricing and inflation, as well as gives us another look at consumer confidence.

On Wednesday, the producer prices report is expected to show a 0.2-percent increase in the headline index, which includes energy and food, for September. This would be up from a decline of 0.1 percent in August. There may be some upside risk here from energy prices and tariff-driven increases in other input prices, especially steel and electronics. The annual change, however, is expected to drop—from 2.8 percent to 2.7 percent—indicating that longer-term inflation pressures are moderating but still elevated above the Fed's target level of 2 percent. The core index, which excludes energy and food, is also expected to increase 0.2 percent for September, up from a 0.1-percent decline in August. Here, though, the annual figure is expected to rise to 2.6 percent from 2.3 percent. Such an increase would be due largely to base effects, but tariffs are reportedly driving faster input inflation, which could worsen next month as tariffs on Chinese goods increase.

On Thursday, the consumer prices report is expected to show continued inflation. The headline index, which, again, includes food and energy, is expected to rise by 0.2 percent for September. This would be

What to Look Forward To (continued)

on top of a 0.2-percent increase in August. The annual figure is expected to drop from 2.7 percent in August to 2.4 percent in September on base effects. The core index is expected to rise from a 0.1-percent increase in August to a 0.2-percent increase for September. In addition, the annual figure is expected to rise from 2.2 percent to 2.3 percent. As with producer prices, these figures indicate that inflation continues to run above the Fed's target, which should continue to drive interest rate increases.

Finally, the University of Michigan's consumer confidence survey, released Friday, is expected to show confidence rising from 100.1 for September to 100.8 for October. This is a high level historically and suggests that consumers are not yet worried about the effects of a trade war. Combined with a strong labor market and the fact that the stock market remains close to its high, this should continue to support consumer spending and economic growth.

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