

# WeeklyMarket Update



## General Market News

- The 10-year U.S. Treasury yield reached a current cycle high of 3.25 percent last Tuesday. It then moved lower to 3.15 percent, where it opened on Monday morning. The 30-year opened at 3.32 percent, while the 2-year opened at 2.84 percent. The 2-year was as high as 2.90 percent last week, which is where the 10-year stood about a month ago. As the Federal Reserve (Fed) continues to raise rates, it has added uncertainty and, therefore, volatility in the markets. With more rate increases ahead, the market will have bigger movements as we inevitably approach the next recession.
- Last week, equities across the globe sold off as U.S. markets experienced a pickup in volatility, with bond yields rising and investors rotating away from growth. The 10-year bond yield rose to levels as high as 3.25 percent, leading investors to take a look at growth prospects moving forward. The worst performers on the week were materials, industrials, and financials. The top performers were utilities, consumer staples, and REITs.
- The People's Bank of China cut its reserve requirement ratio by 1 percent, as China looks to continue to support its domestic economy following U.S.-China trade tensions. There was one bright spot in the U.S.-China trade talks, however, as President Trump and Chinese President Xi will meet at November's G20 summit.
- Last week was another relatively slow week on the economic update front. On Wednesday, the Producer Price Index slowed to 2.6-percent growth on a year-over-year basis. On Thursday, the Consumer Price Index also showed slower inflation, with year-over-year growth of 2.3 percent. Rising inflation was a minor concern earlier in the year, so these results were welcome.
- On Friday, the University of Michigan consumer sentiment survey showed a slight decline, going from 100.1 for September to 99 in October. This still represents a strong reading that shows consumers are confident in the current economic expansion.

## Market Index Performance Data

### EQUITIES

| Index                 | Week-to-Date % | Month-to-Date % | Year-to-Date % | 12-Month % |
|-----------------------|----------------|-----------------|----------------|------------|
| S&P 500               | -4.07          | -4.97           | 5.07           | 10.58      |
| Nasdaq Composite      | -3.74          | -6.80           | 9.48           | 14.93      |
| DJIA                  | -4.17          | -4.17           | 4.29           | 13.45      |
| MSCI EAFE             | -3.93          | -6.17           | -7.09          | -4.22      |
| MSCI Emerging Markets | -2.02          | -6.42           | -13.33         | -10.17     |
| Russell 2000          | -5.22          | -8.81           | 1.69           | 4.06       |

Source: Bloomberg

### FIXED INCOME

| Index             | Month-to-Date % | Year-to-Date % | 12-Month % |
|-------------------|-----------------|----------------|------------|
| U.S. Broad Market | -0.51           | -2.10          | -1.83      |
| U.S. Treasury     | -0.39           | -2.05          | -2.03      |
| U.S. Mortgages    | -0.55           | -1.61          | -1.53      |
| Municipal Bond    | -0.77           | -1.16          | -0.72      |

Source: Morningstar Direct



## What to Look Forward To

This is a busy week for economic news, with a wide range of data from across the economy.

On Monday, the retail sales report is expected to show growth of 0.7 percent for September, on a posthurricane jump in auto sales. This result would be a rebound from a 0.1-percent gain in August. Core retail sales, which exclude autos, are also expected to do well. Here, we should see growth of 0.4 percent for September, up from 0.3 percent in August. There may be some downside risk to this report, as gasoline prices have moderated. If the numbers come in as expected, they

would be at healthy levels and be positive for the economy.

On Tuesday, the industrial production report is expected to tick down a bit, from a gain of 0.4 percent for August to a gain of 0.3 percent for September. There may be some upside risk here, on a weather-related increase in utilities output. Manufacturing is expected to show a similar result, going from a 0.2-percent gain in August to a 0.3-percent gain in September. Here, there may be some downside risk, as manufacturing labor demand declined last month. Again, the expected numbers would indicate

**What to Look Forward To (continued)**

continued growth and be positive for the economy.

Also on Tuesday, the National Association of Home Builders survey will be released. It is expected to stay steady at 67 for September, for the fourth month in a row. There may be some downside risk, as the industry continues to suffer from labor shortages, and rising interest rates are expected to affect demand.

The housing starts report, released on Wednesday, is expected to show a decline after a recovery in August. It should drop from 1.28 million in August to 1.22 million (annualized) in September, although better building permit data suggests the

final result might be somewhat better than expected.

The minutes from the last Federal Reserve Open Market Committee meeting will also be released on Wednesday. Markets will be looking for guidance on whether the Fed expects to hike rates in December and on what to expect in 2019—that is, whether three hikes are indeed likely and on what factors might change that forecast.

Finally, on Friday, the existing home sales report is expected to show that sales have dropped from 5.34 million in August to 5.31 million in September. Housing, in general, appears to be in a slowing trend, and this data would continue that trend.

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 US 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 US 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. Rev. 10/18.

Authored by the Investment Research team at Commonwealth Financial Network.