OCTOBER 22, 2018

Weekly Market Update

General Market News

- The 10-year Treasury yield opened at 3.19 percent early Monday, while the 30-year opened at 3.37 percent and the 2-year at 2.90 percent. The yield curve flattened last week. It is off its recent lows of late September but lower than the level seen after the Federal Reserve (Fed) raised rates a couple of weeks ago. With the Fed apparently ready to raise rates again in December, rate volatility is likely as the market attempts to balance economic growth and the effect of Fed action.

- U.S. equity markets were mixed last week, as investors favored more defensive investments. Not surprising, then, the more defensive Dow led the way for the three major U.S. markets, while the tech- and growth-oriented Nasdaq Composite Index lagged. Consumer staples, REITs, and utilities were among the top three performers. Consumer discretionary, energy, and materials were among the top laggards.

- After last week's steep sell-off, earnings still remain strong at approximately 19.5 percent for the third quarter, per FactSet estimates. Although this result is a sign that strength remains for U.S. markets, China saw its gross domestic product (GDP) growth fall to 6.5 percent in the third quarter compared with 6.7 percent in the second quarter. The Chinese economy continues to take actions to promote growth, including lowering its reserve requirement ratio.

- Last week saw the release of only a handful of notable economic updates. On Monday, September's retail sales data came in lower than expected, with 0.1-percent growth for the month. This follows several months of strong growth, so this is not an immediate concern but should be monitored.

- On Wednesday, both housing starts and building permits declined, as the slowdown in new housing growth continues.

- On Friday, existing home sales disappointed, falling 3.4 percent against expectations for a more modest loss of 0.9 percent.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.05	–4.93	5.11	10.13
Nasdaq Composite	–0.64	–7.40	8.78	13.96
DJIA	0.45	–3.74	4.76	12.36
MSCI EAFE	–0.06	–6.23	–7.15	–4.78
MSCI Emerging Markets	–0.88	–7.24	–14.09	–10.59
Russell 2000	–0.29	–9.08	1.39	3.96

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.88	–2.46	–2.21
U.S. Treasury	–0.70	–2.35	–2.37
U.S. Mortgages	–0.88	–1.94	–1.74
Municipal Bond	–0.72	–1.11	–1.04

Source: Morningstar Direct

What to Look Forward To

This week is a busy one on the economic front, giving us a final look at housing for the month, as well as whether business investment continues to improve. We'll also get a preliminary look at how the economy performed in the third quarter.

On Wednesday, the new home sales report is expected to stay steady at 629,000. This result would be indicative of a potential pause in the ongoing housing slowdown. If the number comes in as expected, it will also signal that while housing growth continues to slow, the downtrend remains under control in one of the most economically impactful sectors.

On Thursday, the durable goods orders report will be released. The headline index is expected to pull back after a significant bounce last month. It should go from a 4.4-percent gain in August to a 1-percent decline in September, on a decrease in transportation orders. This headline index is notoriously volatile, as we can see from these numbers. The core index, which excludes transportation and is a much better economic indicator, is expected to improve from flat growth in August to 0.3-percent growth in September, on growing business investment. This would be a healthy level of growth.

What to Look Forward To (continued)

Finally, on Friday, the first estimate of third-quarter growth in GDP is expected to show that economic growth slowed from 4.2 percent in the second quarter to a still healthy 3.3 percent in the third quarter. While there was some volatility in trade-related components, that is likely to have largely netted out. As such, the slowdown would be due to slower domestic economic activity. If the number comes in as expected, it would show continued healthy growth but also suggest that growth at the level of last quarter was not sustainable.

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