Weekly Market Update

General Market News

- The 10-year U.S. Treasury opened at 2.87 percent early Monday, while the 30-year opened at 3.13 percent. The 2- to 5-year part of the curve remains slightly inverted, with the 2-year yielding about 0.08 percent more than the 5-year. The 3-year currently has the lowest yield of all three Treasuries, at 2.715 percent, and has the deepest inversion with a yield of 0.1 percent below the 2-year. The market will be paying close attention to the Federal Reserve (Fed) on Wednesday, which seems to be set on raising rates.

- Domestic and global markets continued their pullback last week, as Chinese-led global growth concerns and risk-off sentiment remained. Softer November activity data in China also continued concerns surrounding global growth. November industrial output reached a level of just 5.4 percent, below that of the 5.9 percent expected. Among the top underperformers were financials and energy, as oil weakness and the inverted yield curve between the 2- and 5-year Treasuries continue to weigh on the sectors.

- Other political concerns did not help the cause, as the Brexit picture remains murky and President Trump feuded with Nancy Pelosi and Chuck Schumer on immigration policy. This conflict could lead to yet another government shutdown. The U.S.-China trade truce story continues to be positive, but there are more details to be hashed out.

- There were several data points released last week. On Tuesday, the Producer Price Index showed year-over-year inflation of 2.5 percent for producers, which was in line with expectations and below October's figure of 2.9 percent. On Wednesday, the Consumer Price Index also showed slowing inflation, with 2.2-percent annual growth in November, compared with 2.5-percent growth in October. The current downward trend in these two popular measures of inflation is an encouraging sign for the economy.

- On Friday, retail sales came in slightly better than expected with 0.2-percent monthly growth, against expectations for a modest 0.1-percent bump. This result follows strong 1.1-percent growth in October.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–1.22	–5.72	–0.90	–0.04
Nasdaq Composite	–0.82	–5.67	1.15	1.87
DJIA	–1.17	–5.56	–0.28	0.58
MSCI EAFE	–0.89	–3.12	–11.80	–10.23
MSCI Emerging Markets	–0.95	–2.26	–13.95	–10.87
Russell 2000	–2.52	–7.92	–7.01	–5.16

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.91	–0.90	–1.01
U.S. Treasury	0.94	–0.34	–0.55
U.S. Mortgages	0.75	–0.06	–0.15
Municipal Bond	0.48	0.57	0.64

Source: Morningstar Direct

What to Look Forward To

This week is a busy one on the economic front, with several reports on housing, a look at durable goods demand, and the consumer income and spending report.

On Monday, the National Association of Home Builders survey showed another unexpected drop, going to 56 for December. This result was worse than a small expected increase to 61 and down from 60 in November, which itself was a surprise drop from 68 in October. This suggests that the housing market may well continue to weaken.

The housing starts report will be released on Tuesday. It is expected to stay steady at 1.23 million annualized, after a small increase last month. A decline in building permit data, however, suggests the final result might be somewhat worse than expected.

On Wednesday, the existing home sales report is also expected to show sales decreasing slightly. They should go from 5.22 million in October to 5.20 million in November. Housing in general appears to be in a slowing trend, but this data

What to Look Forward To (continued)

would suggest that slowing is steady rather than accelerating.

Also on Wednesday, the Federal Reserve Open Market Committee will conclude its regular meeting with a press conference. Markets expect the Fed to raise its baseline rate by 25 basis points once more. But the real focus will be on what Chair Powell indicates about the pace of rate increases in 2019. With recent assumptions that the Fed is becoming more dovish, markets will be watching closely.

On Friday, we'll see the durable goods orders report. The headline index is expected to rebound substantially from last month, from a 4.3-percent decline in October to a gain of 2 percent in November, on an increase in aircraft orders. This headline index is notoriously volatile, as we can see. The core index, which excludes transportation and is a much better economic indicator, is expected to improve from 0.2-percent growth in October to 0.3-percent growth in November, on steady growth in business investment. This would be a healthy level of growth, although there may be some upside risk here as industry surveys improved in November.

Finally, also on Friday, the personal income and spending report will be released. It is expected to show that personal income rose by 0.3 percent in November, down from 0.5-percent growth in October, on slower job and labor demand growth. Personal spending growth is expected to decline from 0.6 percent in October to 0.3 percent in November, on a decline in gasoline prices that will offset rising retail sales. This would remain a healthy level of spending growth and would be well supported by the income growth.

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