

WeeklyMarket Update



General Market News

- Rates moved up for the second week in a row, reversing some of the decline we experienced at the beginning of the year. The 10-year Treasury opened the week at 2.75 percent, while the 30-year opened slightly higher at 3.07 percent and the 2-year opened at 2.59 percent.
- The three major U.S. markets all posted gains on the week. The two main drivers of positive investor sentiment included optimism surrounding a U.S.-Chinese trade deal and a perceived dovish tone from Federal Reserve (Fed) members. On Thursday, the *Wall Street Journal* reported that Treasury Secretary Mnuchin had discussed lowering tariffs on Chinese goods as an olive branch to Chinese negotiators. Usually hawkish, Kansas City Fed President Esther George said that a pause in the Fed's normalization process would give the bank time to make a proper assessment of the incoming data. Finally, New York Fed President Williams stated that a government shutdown could cut quarterly growth from 0.5 percent to 1 percent, depending on its length.
- Financials, industrials, and energy were among the top-performing sectors. Oil posted gains, and banks (including Goldman Sachs and Bank of America) posted strong beats. The worst performers were utilities and consumer staples, with investors favoring a risk-on sentiment.
- The Producer Price Index came in slightly softer than expected, with the core index (excluding food and energy) falling 0.1 percent month-over-month versus the estimate of a gain of 0.2 percent.
- The University of Michigan consumer sentiment survey declined from 98.3 to 90.7, which was much lower than the survey estimate of 96.8. This decline likely came from a combination of equity market volatility and the government shutdown weighing on consumers.
- Government data continues to become backlogged due to the shutdown. Some data points may be missed depending on the length of the shutdown.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	2.90	6.63	6.63	-2.65
Nasdaq Composite	2.67	7.89	7.89	-0.84
DJIA	3.01	6.02	6.02	-2.84
MSCI EAFE	1.08	5.02	5.02	-12.88
MSCI Emerging Markets	1.69	5.45	5.45	-14.68
Russell 2000	2.44	9.97	9.97	-4.72

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	-0.01	-0.01	0.94
U.S. Treasury	-0.43	-0.43	1.51
U.S. Mortgages	-0.04	-0.14	1.78
Municipal Bond	0.38	0.38	2.04

Source: Morningstar Direct



What to Look Forward To

As with last week, several of the scheduled reports are prepared by government agencies currently affected by the shutdown and will not be released until the government reopens. This would be a slow week anyway. But with the shutdown, it will be especially slow.

On Tuesday, the existing home sales report is expected to pull back from 5,320,000 in November to 5,270,000 in December. This result would indicate continued weakness in the housing

market and would be consistent with declining consumer confidence and housing affordability.

On Friday, the durable goods orders report will not be released, but the numbers are expected to improve. For the headline number, which includes the very volatile aircraft sector, growth is expected to rise from 0.8 percent in November to 1.5 percent in December. Here, there is significant upside risk based on increases in orders for planes.

What to Look Forward To (continued)

The core number, which is a much better economic indicator, is also expected to rise, from a decline of 0.3 percent in November to a gain of 0.2 percent for December. This result would indicate that business investment may be moderating but continues to expand.

Also on Friday, the new home sales report is scheduled, but it will not be released due to the shutdown. No estimates are currently available as to expected results.

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 U.S. 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 U.S. 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 U.S. 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. 01/19.

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