FEBRUARY 11, 2019

Weekly Market Update

General Market News

- Rates continued to move lower last week, as the 10-year U.S. Treasury reached its lowest point in more than a month at 2.62 percent. The low for the 10-year in 2019 is 2.55 percent (on January 3). Over the past 12 months, the 10-year is down 20 basis points, standing as high as 3.23 percent last November. The longer end of the curve is pointing more and more toward an economic slowdown, as the 30-year broke below 3 percent on Monday morning.

- All three major U.S. indices were up slightly last week. The Nasdaq Composite led the way, posting a gain of 0.53 percent. This was supported by a rebound in large tech names, including Apple (AAPL), up 2.3 percent, and Microsoft (MSFT), up 2.8 percent on the week.

- The major news came from President Trump, as he stated that a meeting with Chinese President Xi will not take place before the March trade deal deadline. In other international news, the European Commission cut its eurozone forecast for 2019 to 1.3 percent from 1.9 percent. This comes following softer German manufacturing data for December.

- Last week was relatively quiet on the economic update front, as there were only two major data releases. On Tuesday, the Institute for Supply Management Nonmanufacturing index declined by more than expected, falling to 56.7. This is still a level that indicates economic expansion.

- On Wednesday, the international trade report for November showed an unexpected decline in the trade deficit. This was driven by a larger decline in imports than exports as U.S. firms stockpiled imports earlier in the year in anticipation of increased tariffs.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.11	0.21	8.24	7.04
Nasdaq Composite	0.53	0.29	10.10	8.90
DJIA	0.32	0.58	7.91	7.69
MSCI EAFE	–1.38	–1.44	5.06	–7.77
MSCI Emerging Markets	–1.34	–1.32	7.34	–8.38
Russell 2000	0.32	0.49	11.80	4.29

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.13	1.20	3.22
U.S. Treasury	0.13	0.60	3.59
U.S. Mortgages	–0.06	0.74	3.65
Municipal Bond	0.27	1.02	3.79

Source: Morningstar Direct

What to Look Forward To

This week is a busy one for economic data, with the regularly scheduled reports joined by some catch-up data.

On Wednesday, the consumer price reports will be released. The headline index, which includes energy and food, is expected to rise by 0.1 percent for January, up from a 0.1-percent decline in December. This would take the annual rate down from 1.9 percent to 1.5 percent on base effects. A drop in the price of gasoline and natural gas is the primary factor in the significant annual decline. The core index, which excludes food and energy, should hold steady at a 0.2-percent gain for January, the same as December. Here, the annual figure should pull back slightly from 2.2 percent to 2.1 percent. If the numbers come in as expected, inflation will remain solidly under control, which will likely keep the Federal Reserve patient on interest rates.

On Thursday, the producer price reports are also expected to show moderating inflation. The headline index should rise from a 0.2-percent decline in December to a 0.1-percent increase in January, but the annual rate will likely decline from 2.5 percent to 2.3 percent on base effects. Core prices are also expected to rise on a monthly basis, from a 0.1-percent decline in December to a 0.2-percent gain in

What to Look Forward To (continued)

January. The annual figure will likely drop here as well, however, from 2.7 percent to 2.5 percent.

The retail sales report, a catch-up report, will be released on Thursday. The headline index will likely pull back slightly, from a 0.2-percent gain in November to a 0.1-percent gain in December. The core index, which excludes autos, is expected to pull back a bit more, from a 0.2-percent gain in November to flat in December. Much of this is due to lower gasoline prices, but there are also signs that underlying spending growth may be slowing, and there is some downside risk to these numbers.

On Friday, the industrial production report is also expected to pull back slightly. Growth of 0.3 percent in December will likely drop to 0.1 percent in January, largely on reduced manufacturing output. Manufacturing is expected to decline from an unanticipated surge of 1.1-percent growth in December to 0.2 percent in January on a decline in employee hours. There may be some downside risk to both these numbers on slowing global demand.

Finally, also on Friday, the initial release of the University of Michigan consumer confidence index should rebound a bit, from 91.2 in January to 94 in February. The government shutdown was responsible for much of the recent decline, reportedly, so its end should help the index bounce back. Lower gas prices and the stock market recovery should also help.

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