Weekly Market Update

General Market News

- Last week, rates backed up across the curve as the 10-year Treasury moved from 1.42 percent to open at 1.59 percent early this Monday morning. The 30-year Treasury opened at 2.07 percent and the 2-year opened at 1.56 percent. The volatility in the rate market continues and should be expected going forward, with the longer-term trend likely to the downside.

- Global equities rallied following easing of political and trade tensions. The chief executive of Hong Kong announced the formal withdrawal of the extradition bill, which had sparked months-long protests in the region. Turning toward trade, the possibility of a no-deal Brexit declined, as the U.K. Parliament approved a bill to postpone the exit if there is no agreement in place by October 19. The British pound climbed following the lower probability of a no-deal Brexit. Finally, the U.S. and China set a date for their October meeting. The result was a risk-on rally, which saw energy, consumer discretionary, and technology among the best performers on the week. Utilities, health care, and materials were among those sectors that trailed in this rally.

- Last week started with Tuesday's release of the Institute for Supply Management (ISM) Manufacturing index. It showed an unexpected decline from 51.2 in July to 49.1 in August. This is a diffusion index, where values above 50 represent expansion and values below 50 represent contraction. August's reading is the lowest reading for the index since January 2016 and marks the first time the manufacturing sector has experienced a contraction since August 2016. This is the fifth straight month of decline for the index, as the slowdown in global trade and the uncertainty created by the ongoing U.S.-China trade war have negatively affected manufacturers.

- On Wednesday, July's international trade report was released. The trade deficit narrowed slightly, from $55.5 billion in June to $54 billion in July. This result was in line with expectations for a shrinking trade deficit during the month. Exports rose during the month, while imports declined slightly. The trade deficit has widened slightly on a year-over-year basis, as a narrowing of the deficit with China has been offset by widened deficits with other countries, such as Mexico and Vietnam.

General Market News (continued)

- On Thursday, the ISM Nonmanufacturing index for August was released. Service sector confidence increased by much more than expected. It rose from 53.7 in July to 56.4 in August, against expectations for a more modest increase to 54. The service sector accounts for roughly seven-eighths of the economy, so this result helps calm concerns raised by the drop in manufacturer confidence. All in all, this was a very positive report. It showed that the service sector is currently weathering the uncertainty caused by the trade war far better than manufacturers.

- Finally, we finished the week with the release of August's employment report. Headline job creation disappointed, with only 130,000 new jobs added against expectations for 160,000. The underlying data was much better, however. The participation rate moved up, and unemployment remained unchanged at 3.7 percent. Wage growth also came in stronger than expected, with year-over-year average hourly earnings growing by 3.2 percent against expectations for 3 percent. Although the headline figure was disappointing, the increase in participation, along with faster-than-expected wage growth, indicates that the jobs market still remains healthy.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.83	1.83	20.50	5.62
Nasdaq Composite	1.78	1.78	23.05	3.41
DJIA	1.53	1.53	16.90	5.56
MSCI EAFE	2.23	2.24	12.59	1.84
MSCI Emerging Markets	2.23	2.44	12.59	1.84
Russell 2000	0.71	0.71	12.64	–10.94

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.15	8.93	10.12
U.S. Treasury	–0.21	8.40	10.28
U.S. Mortgages	0.01	5.54	7.16
Municipal Bond	–0.16	7.44	8.68

Source: Morningstar Direct

What to Look Forward To

The week will begin with Wednesday's release of the Producer Price Index for August. Producer inflation is expected to come in at 0.1 percent for the month and 1.8 percent year-over-year. Core producer prices, which strip out the impact of volatile food and energy prices, are set to show monthly growth of 0.2 percent and year-over-year growth of 2.2 percent. Rising price pressure created by the imposition of 25 percent tariffs on $200 billion in Chinese goods has largely been offset by a decline in import prices, keeping producer inflation muted for the time being.

On Thursday, the Consumer Price Index is set to be released. Economists expect to see a similar August for consumers as for producers, with 0.1 percent monthly inflation and 1.8 percent year-over-year growth. As was the case with producers, core consumer inflation is set to come in higher than headline inflation, with 0.2 percent monthly growth and 2.3 percent annual growth expected. Rising labor costs are starting to be reflected in higher consumer prices, as annual core consumer inflation of 2.3 percent is the highest reading in more than a year. Despite the anticipated uptick in core consumer prices, overall inflation remains below the Federal Reserve's stated 2 percent inflation target.

Thursday will also see the release of the August retail sales report. Sales are expected to increase by 0.2 percent in August, following a 0.7 percent gain in July. Retail sales growth has been one of the bright spots in the economy so far this summer, so continued growth here would be positive. This would mark the sixth straight month of sales growth.

Finally, we will finish the week with the first estimate of the University of Michigan consumer sentiment survey. It is set to increase to 90.5 in September following a sharp drop to 89.8 in August. Market volatility in August likely caused much of this drop, but equity markets have been able to rebound to near all-time highs to start the month. As such, a rebound in consumer confidence would make sense. Lower gas prices and low jobless claims should also help support an increase in consumer confidence for the month.

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