SEPTEMBER 16, 2019

Weekly Market Update

General Market News

- Last week, the 10-year Treasury went up to 1.90 percent late, but it pulled back after the news from Saudi Arabia over the weekend and opened at 1.80 percent on Monday. The rest of the curve had similar moves. The 2-year Treasury was as high as 1.80 percent and opened at 1.75 percent, and the 30-year Treasury was as high as 3.37 percent and opened at 2.26 percent.

- Global equities rallied last week following speculation of an interim U.S.-China trade deal, as well as a rate cut and economic stimulus from the European Central Bank (ECB). The de-escalation in trade tensions came on both sides, as the week began with President Trump delaying tariffs on the $250 billion in Chinese imports until October 15. Later in the week, China announced that it would exempt some of the tariffs on soybeans and pork. On Thursday, the president of the ECB, Mario Draghi, announced that the ECB would cut its deposit rate by 10 basis points to –0.5 percent. The ECB also announced that it would restart its quantitative easing program by buying 20 billion euros per month in securities, beginning in November. This decision was met with dissent from several of the other European central bankers. Finally, we saw a large rotation from growth to value, with financials, energy, and materials among the top performers. Those that underperformed included REITs, consumer staples, and technology.

- We started off the week with Wednesday's release of the Producer Price Index for August. Producer prices increased by 0.1 percent during the month and 1.8 percent year-over-year, as expected. Core prices, which strip out the impact of volatile food and energy prices, came in higher than expected, with 0.4 percent monthly growth and 2.3 percent year-over-year growth. This increase in core producer inflation largely offset a surprise 0.3 percent decline in July. Producer inflation appears to be picking up, and there may be more upward pressure coming, as additional tariffs on Chinese goods came into effect on September 1.

- Thursday saw the release of the Consumer Price Index for August. As was the case with producer prices, consumers saw prices rise during the month, with 0.1 percent monthly and 1.7 percent year-over-year growth. Headline consumer inflation came

General Market News (continued)

in slightly below expectations for 1.8 percent year-over-year growth, but this was largely due to a drop in gasoline prices. Core consumer inflation came in higher than expected, with 0.3 percent monthly growth and 2.4 percent year-over-year growth. This result represents the highest annual core consumer inflation rate in 11 years. Consumers are starting to feel the negative effects of the ongoing trade war, as prices for home furnishings and recreational goods have grown notably over the past year. Going forward, the new September tariffs will likely add more pressure on consumer prices, as this round includes tariffs on additional categories of retail goods.

- Despite the rise in consumer prices this year, spending has been a bright spot in the economy. On Thursday, that trend continued with the release of the August retail sales report. Sales came in better than expected, with 0.4 percent growth against expectations for 0.2 percent. This result follows a strong 0.7 percent increase in July. This is the sixth straight month of growing retail sales, as consumers have been powering the ongoing economic expansion. Consumer confidence has remained strong in the face of rising inflation and trade war-related uncertainty, and consumers have been more than willing to translate high confidence levels into additional spending.

- Speaking of confidence, we finished the week with Friday's release of the University of Michigan consumer sentiment survey for September. The survey rose from 89.8 in August to 92 in September, against expectations for a modest increase to 90.8. Confidence dropped in August, in large part due to market volatility during the month. So, it is encouraging to see this rebound now that markets are approaching all-time highs. Lowered gas prices and continued low jobless claims also likely helped support this rebound in confidence. Despite the increase in September, the survey remains well below levels seen earlier in the year, so this will be an important data series to monitor.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.02	2.87	21.73	5.69
Nasdaq Composite	0.94	2.74	24.20	3.17
DJIA	1.65	3.20	18.83	6.65
MSCI EAFE	1.99	4.27	14.84	3.02
MSCI Emerging Markets	1.91	4.39	8.77	3.87
Russell 2000	4.90	5.65	18.17	–6.60

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–1.81	7.13	8.62
U.S. Treasury	–2.34	6.09	8.40
U.S. Mortgages	–0.45	5.05	6.98
Municipal Bond	–1.24	6.27	7.77

Source: Morningstar Direct

What to Look Forward To

Tuesday will see the release of the August industrial production report. It is set to show 0.2 percent growth following a 0.2 percent decline in July. A rebound in manufacturing output, a major driver of the July decline, should offset lower-than-expected utilities production. If manufacturing output shows the growth that economists forecast, it would help calm fears of a larger slowdown in manufacturing following recent declines in manufacturer confidence.

Also on Tuesday, the National Association of Home Builders Housing Market Index is set to be released. Home builder confidence is expected to remain steady at 66 in September. Although home builder confidence has recovered well from a plunge at the end of 2018, the index still sits below recent highs seen at the end of 2017 and the beginning of 2018.

Wednesday is set for the release of August's building permits and housing starts data. Housing starts are expected to increase following an increase in permits in July. This increase would be welcome given the shortage of new homes in key markets.

What to Look Forward To (continued)

The Federal Open Market Committee (FOMC) is meeting this Tuesday and Wednesday to discuss the state of the economy and set the federal funds rate. The FOMC rate decision will be released Wednesday afternoon. Economists widely expect the FOMC to lower the upper bound of the federal funds rate from 2.25 percent to 2 percent at this meeting, as the Federal Reserve continues to cut rates in order to support the economy in the face of slowing international trade. Markets have priced in two more rate cuts this year.

Thursday will see the release of August's existing home sales report. It is expected to show sales declining by 0.9 percent in August, following a surprisingly strong 2.5 percent increase in July. Despite the anticipated monthly decline, sales are expected to show growth on a year-over-year basis. This would mark the second straight month that year-over-year existing home sales have grown following 17 months of declines.

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