SEPTEMBER 30, 2019

Weekly Market Update

General Market News

- Rates in the U.S. were mostly flat late last week. September as a whole proved to be quite volatile, however, with the 10-year Treasury yield swinging from a low of 1.42 percent to a high of 1.90 percent. It came in at 1.68 percent on Monday. The 30-year had similar moves during the month, with highs of 2.37 percent and lows of 1.90 percent, settling at 2.13 percent on Monday. This activity is quite typical in this part of the economic cycle, and we should expect more volatility, with an overall trend toward lower rates in the next year.
- U.S. equities were down last week, following uncertainty in Washington and volatility in U.S.-China trade policy. The week began with ramped-up tensions in the capital. On Tuesday, Speaker of the House Nancy Pelosi announced the House would begin impeachment proceedings against President Trump, spurred by news of a phone call with newly elected Ukrainian President Volodymyr Zelensky. The week wrapped up on Friday with the Trump administration weighing the idea of restricting capital flows into Chinese investments.
- The top-performing sectors for the week were the bond proxies in utilities, consumer staples, and REITs. The worst-performing sectors were health care, energy, and communication services, following the launch of the U.S. Department of Justice's antitrust investigation into Facebook.
- On Friday, August's personal income and personal spending reports were released. Income grew by 0.4 percent, as expected. Personal spending, however, increased by only 0.1 percent during the month. Economists had forecasted a 0.3 percent rise in spending. This is a disappointing report, as strong consumer spending has been the driver of overall economic growth this year.
- Also on Friday, August's durable goods orders report was released. Orders increased by 0.2 percent during the month, which was much better than the 1.2 percent decline economists expected. This outperformance was due to better-than-expected aircraft orders, which can be volatile on a month-to-month basis. The core figure, which strips out transportation orders, increased by 0.5 percent during the month, against expectations for a 0.2 percent increase.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.98	1.35	19.94	3.73
Nasdaq Composite	–2.18	–0.21	20.63	–0.17
DJIA	–0.43	1.69	17.08	3.91
MSCI EAFE	–0.62	3.23	13.73	–1.10
MSCI Emerging Markets	–1.86	1.95	6.27	–1.88
Russell 2000	–2.45	1.88	13.95	–8.74

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.58	8.47	10.27
U.S. Treasury	–0.87	7.69	10.46
U.S. Mortgages	–0.01	5.51	7.76
Municipal Bond	–0.82	6.73	8.64

Source: Morningstar Direct

What to Look Forward To

On Tuesday, the Institute for Supply Management (ISM) Manufacturing index is set to be released. Manufacturer confidence is expected to increase from 49.1 in August to 50.5 for September. This is a diffusion index, where values below 50 indicate contraction. August marked the first time this index fell below 50 since 2016. So, a quick rebound would help calm economist fears of a potential manufacturing recession in the face of lowered global trade.

Thursday will see the release of the ISM Nonmanufacturing index. Economists expect service sector confidence to decline from 56.4 in August to 55 in September. Confidence rose in July, but this index is still well below recent highs seen in 2018. Even so, a result in the mid-50s would indicate that fears over the trade war do not weigh as heavily on the service sector as on the manufacturing sector. The service sector makes up the lion's share of economic activity.

Friday will see the release of the September employment report. Expectations are for the creation of 140,000 new jobs, following 130,000 new jobs in August. Even with this expected growth, the number of new jobs would remain well below levels seen in 2018. The underlying data,

What to Look Forward To (continued)

however, is expected to be a bit more positive. Unemployment is likely to remain steady at 3.7 percent, while earnings growth is set to come in at 3.2 percent on a year-over-year basis. Overall, the jobs market remains healthy, but the slowdown in headline job creation is cause for concern, given the downward trend we've seen this year.

Finally, also on Friday, August's international trade report will be released. Economists expect the trade deficit to widen from $54 billion in July to $54.8 billion in August. The trade war with China is expected to negatively affect exports during the month, despite a slight uptick in food exports driven by China's goodwill soybean purchases.

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