DECEMBER 9, 2019

Weekly Market Update

General Market News

- Rates experienced an uptick in volatility last week. The 10-year Treasury yield went from 1.85 percent down to 1.69 percent and back up to 1.85 percent before opening on Monday at 1.82 percent. The 2-year opened at 1.60 percent, and the 30-year opened at 2.25 percent. It's not surprising to see rates react in this manner, with mixed economic numbers and geopolitical concerns causing large swings in the markets.

- The three major U.S. indices were mixed last week, remaining relatively flat overall. The week began with increased U.S.-China tensions. The Chinese newspaper *Global Times* published an article reporting that Chinese trade officials would insist on the removal of the existing tariffs before moving ahead with the "phase one" deal. This was followed by a comment from President Trump that it may be better to wait until after the 2020 election to conclude a deal. While both of these statements increased existing tensions, trade officials from both sides reported that they continue to hold close talks about a deal.

- In other trade news, on Monday, President Trump announced that he would issue tariffs on steel and aluminum imports from Brazil and Argentina. France also came into the crosshairs, with the U.S. saying it would look into placing tariffs on French goods following France's digital services tax on U.S. technology companies.

- Last week, OPEC+ agreed to raise its output cuts by 496,000 barrels for the first quarter of 2020, which would put total group production below that of the 2018 baseline. West Texas intermediate crude oil rose by more than 7 percent on the week, which led the energy sector to return more than 1.5 percent. Other top-performing sectors included consumer staples and health care. The worst performers were industrials, consumer discretionary, and technology.

- On Monday, the Institute for Supply Management (ISM) Manufacturing index for November was released. Manufacturer confidence declined, falling from 48.3 in October to 48.1 in November. Economists had previously forecast a slight increase to 49.2. This is a diffusion index, where values less than 50 indicate contraction, so this was a discouraging result. The index has measured below 50 for four straight months, as slowing global trade amid the ongoing U.S.-China trade war continues to negatively affect manufacturer confidence.

- Wednesday saw the release of the ISM Nonmanufacturing index, which also

General Market News (continued)

declined unexpectedly. This measure of service sector confidence fell from 54.7 in October to 53.9 in November. Last month's declines in both manufacturer and nonmanufacturer confidence leave the combined index of business confidence at levels that indicate low-single-digit gross domestic product (GDP) growth.

- On Friday, the November employment report came in much better than expected with 266,000 jobs added, against expectations for 180,000. October's figure was also revised higher. Roughly 40,000 jobs were due to striking GM employees returning to work. But even without this onetime boost, November's headline jobs figure would be well above levels we've averaged this year. The underlying data was encouraging as well, with the surge in new jobs sending the unemployment rate back down to 3.5 percent. Wage growth also came in better than expected, increasing by 3.1 percent on a year-over-year basis.

- Finally, we finished the week with the first estimate of the University of Michigan consumer sentiment survey. It increased from 96.8 in November to 99.2 in December, against expectations for a more modest increase to 97. This marks the fourth straight month that the index has increased, after hitting a two-year low in August. Improving consumer confidence helps support additional consumer spending, so this increase is quite welcome.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.21	0.21	27.90	19.08
Nasdaq Composite	–0.08	–0.08	31.81	21.75
DJIA	–0.06	–0.06	22.98	15.06
MSCI EAFE	0.38	0.38	19.23	16.74
MSCI Emerging Markets	0.88	0.88	11.53	10.39
Russell 2000	0.59	0.59	22.73	12.22

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.22	8.55	9.82
U.S. Treasury	–0.37	7.06	8.45
U.S. Mortgages	–0.04	6.01	7.34
Municipal Bond	0.03	7.24	7.77

Source: Morningstar Direct

What to Look Forward To

Wednesday will see the release of the Consumer Price Index for November. Consumer inflation is expected to increase by 0.2 percent for the month, which would bring annual inflation up to 2 percent. Core inflation is also expected to show 0.2 percent monthly growth, with annual core inflation set to remain unchanged at 2.3 percent. The tariffs imposed on consumer goods from China in September have not had much of an effect on consumer prices, as slowing economic growth has put downward pressure on prices.

The Federal Open Market Committee (FOMC) will be meeting on Tuesday and Wednesday, and the FOMC rate decision will be released Wednesday afternoon. Economists expect the Federal Reserve (Fed) to leave interest rates unchanged, breaking a streak of three straight meetings with a rate cut. Despite the expectation for unchanged rates, there will still be plenty to pay attention to. Fed Chair Jerome Powell is scheduled to hold a press conference after the meeting, where he will likely discuss the Fed's updated outlook. Market participants will be widely monitoring Powell's speech for any hints of future policy moves.

On Thursday, we'll get a look at November's Producer Price Index. As was the case with consumer prices, economists expect 0.2 percent monthly growth for headline and core producer prices. On a year-over-year basis, headline inflation is set to increase by 1.2 percent, and core inflation is expected to show 1.7 percent growth. Inflation has been largely muted this year and sits below the Fed's stated 2 percent target.

We'll finish the week with Friday's release of November's retail sales report. Sales are expected to show 0.4 percent monthly growth, following a solid 0.3 percent increase in October. Core retail sales, which strip out the impact of volatile automobile and gas purchases, are also expected to show 0.4 percent growth, which would be the best result since August. Consumer spending has been the major driver of economic growth this year. So, this anticipated acceleration as we head into the busy holiday season would be very encouraging.

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