DECEMBER 16, 2019

Weekly Market Update

General Market News

- The volatility in rates continued last week. The 10-year Treasury yield moved from 1.77 percent to 1.95 percent and back down to 1.81 percent before opening at 1.85 percent on Monday. The 2-year moved from 1.58 percent to 1.69 percent and opened at 1.62 percent on Monday. The 30-year opened at 2.27 percent after briefly hitting 2.36 percent last week.
- Global markets rallied last week following the U.S. and China agreeing upon a phase one trade deal. The terms included additional U.S. agricultural purchases in exchange for the repealing of certain U.S. tariffs on Chinese goods. Emerging market stocks rose as a result, as investors saw easing trade tensions as a catalyst for investment. There was also positive trade news to report here in North America, with the U.S. House and President Trump agreeing upon the terms of the U.S.-Mexico-Canada Agreement.
- In European news, the U.K. held its third general election in five years, and the conservative party took a significant majority in Parliament. This majority will look to continue to push for a Brexit at the start of 2020.
- The top-performing sectors on the week were technology, consumer discretionary, and financials. The lagging sectors included the risk-off bond proxies in REITs, communication services, utilities, and consumer staples.
- On Wednesday, November's Consumer Price Index (CPI) was released. Consumer prices increased by 0.3 percent during the month, which was slightly higher than the 0.2 percent forecast. This inflation growth was due to rising gas prices, as core CPI, which strips out the impact of volatile food and energy prices, rose by only 0.2 percent for the month. Consumer inflation rose to 2.1 percent on a year-over-year basis, which is a one-year high. Despite the faster-than-expected growth in November, September's tariffs have not had much of an effect on consumer goods. It remains unlikely that we will see significantly faster inflation in the short term.
- On Thursday, November's Producer Price Index data was released. Producer inflation came in flat for the month, against expectations for a 0.2 percent increase. This result dragged year-over-year inflation down to 1.1 percent, well below the Fed's stated 2 percent inflation target. This was caused primarily by slowing prices for services, which fell by the most in a single month since February 2017, due to decreasing trade services margins. November's lackluster inflation reports support the Fed's pause as it waits to see if further easing is necessary.
- We finished the week with the release of November's retail sales report. Retail sales came in below expectations, growing by 0.2 percent against expectations for 0.5 percent growth. Rising auto and gas sales boosted headline sales, as core retail sales grew by only 0.1 percent. This is a disappointing result, as there was some hope for accelerated sales growth, given improvements to consumer confidence during the month. Consumer spending has been the major driver of economic growth this year, so this slowdown indicates that overall economic growth is likely slowing as well. With that being said, there is some reason for optimism going forward, as an improving job market and continued support from the Fed indicate that spending is unlikely to fall further in the short term.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.77	0.98	28.89	22.00
Nasdaq Composite	0.93	0.85	33.03	24.91
DJIA	0.49	0.43	23.57	17.21
MSCI EAFE	1.72	2.10	20.66	17.11
MSCI Emerging Markets	3.63	4.54	15.20	13.17
Russell 2000	0.30	0.90	23.10	16.01

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.07	8.87	10.00
U.S. Treasury	–0.17	7.28	8.73
U.S. Mortgages	0.13	6.20	7.37
Municipal Bond	0.30	7.53	8.32

Source: Morningstar Direct

What to Look Forward To

We started the week with Monday's release of the National Association of Home Builders Housing Market Index for December. Home builder confidence blew away expectations, with the index rising from 70 in November to 76 in December, against forecasts for a modest increase to 71. This is a 20-year high for the index, which is a very impressive turnaround considering home builder confidence hit a multiyear low of 56 in December 2018. This year, home builder sentiment has steadily improved, as low mortgage rates and high consumer confidence levels have been driving more interest in newly built homes. Builders have been happy to meet this demand by investing in and building new housing stock. Looking forward, increased home builder confidence should support additional construction as we head into the new year.

Speaking of new construction, on Tuesday, November's building permits and housing starts reports are set to be released. Economists are forecasting a decline in building permits but a 2.1 percent increase in housing starts. Such a result in housing starts would bring that indicator to its second-highest monthly level since 2007, as home builders have been willing and able to meet buyer demand for new home construction. New home supply remains constrained in certain markets, so an increase would be a positive development for the housing market.

Tuesday will also see the release of November's industrial production report. Production is set to show 0.8 percent monthly growth, following a 0.8 percent decline in October that was largely due to the General Motors strike and an associated plunge in auto production.

What to Look Forward To (continued)

Manufacturing output is also expected to bounce back from the October slowdown, with 0.8 percent growth expected. As we finish out the year, a rebound following the slowdown in September and October would help calm concerns over a broader extended decline in industrial production. Despite November's anticipated rebound, slowing global demand is likely to put a damper on industrial production to start off 2020.

On Thursday, we'll get a direct look at home buyer demand, with the release of November's existing home sales report. Sales of existing homes are expected to decline from 5.46 million in October to 5.45 million in November. But even so, a decline would still represent 9 percent growth on a year-over-year basis. This result would mark the fifth straight month of year-over-year improvements in existing home sales, indicating the slowdown we saw at the end of 2018 is well behind us. Housing growth has been a bright spot in the ongoing expansion. Continued strength here would bode well for overall economic growth for the quarter.

Friday will see the release of November's personal income and personal spending reports. Economists expect personal income to increase by 0.3 percent during the month, while spending is set to increase by 0.4 percent. The forecast for growth is encouraging, given October's report showing income remaining surprisingly flat for the month. Spending has been strong this year; if the estimates are accurate, November's report will mark the ninth straight month of spending growth. As long as personal income and spending numbers continue to be healthy, overall economic growth should remain positive even if its pace has slowed a bit.

Finally, we'll finish the week with Friday's release of the second and final reading of the University of Michigan consumer confidence survey for December. The index is expected to remain unchanged from the month's first estimate. The preliminary estimate of 99.2 was higher than the initial forecast of 97, as a better-than-expected November jobs report and equity markets near all-time highs continue to support consumer confidence. If the index remains unchanged, this would mark the fourth straight month of increasing consumer sentiment, following a surprising fall to a two-year low in August. Consumer confidence supports additional spending growth, so an improvement in December would be quite welcome.

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