DECEMBER 23, 2019

Weekly Market Update

General Market News

- Last week, long-term Treasury yields spiked to their highest levels in more than a month. On Thursday, the 10-year Treasury yield hit a high of 1.95 percent before ending the week at 1.92 percent. The 30-year hit a high of 2.37 percent before retreating to 2.34 percent at week's end.
- Global equities moved higher yet again, as positive global sentiment continued following the U.S.-China "phase one" trade deal and the U.S.-Mexico-Canada Agreement. China also posted stronger-than-expected November industrial production data. Emerging markets continued their bounce following the phase one deal. In a shift from last week, we saw a recovery in defensive sectors. Utilities, REITs, communication services, energy, and health care led the way. Communication services were supported by a 6.3 percent rebound in Facebook and a 12.9 percent rebound in Netflix following positive subscriber metrics. The worst performers on the week were industrials, financials, and materials.
- 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. The index rose from 70 in November to 76 in December, against forecasts for a more modest increase to 71. This result marks 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. Home builder sentiment has steadily improved this year, as low mortgage rates and high consumer confidence levels have been driving more foot traffic in to newly built homes.
- On Tuesday, we saw the impact from improving home builder confidence, as November's building permits and housing starts reports both came in better than expected. Building permits increased by 1.4 percent for the month, against expectations for a 3.5 percent decrease. Starts grew by 3.2 percent, despite forecasts for 2.4 percent growth. This better-than-expected result brought housing starts to their second-highest monthly level since 2007, as home builders are trying to meet increased buyer demand in supply-constrained regions.
- Tuesday also saw the release of November's industrial production report, which came in better than expected. Production increased by 1.1 percent during the month, beating expectations for 0.9 percent growth. This strong result helps offset a 0.8 percent decline in October that was largely caused by the General Motors (GM) strike. As expected, automobile production was the major driver of November's growth, increasing by 12.4 percent for the month. Manufacturing output also beat expectations with 1.1 percent growth, against forecasts for a 0.8 percent increase. November's better-than-expected rebound for industrial and manufacturing output is encouraging given the weakness we've seen in this area of the economy for most of the year.
- On Thursday, November's existing home sales report came in slightly below expectations. Existing home sales fell by 1.7 percent during the month, against expectations for a 0.4 percent decline. Part of this larger-than-expected decline can be attributed to low inventory, as

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available inventory fell during the month. When broken down geographically, results were more mixed, as increased sales in the Northeast and Midwest were not enough to offset declines in the southern and western regions. Despite the monthly decline, sales continued to increase on a year-over-year basis, up by 2.7 percent over the past 12 months. This marks the fifth straight month of year-over-year growth for existing home sales, which indicates that the drawn-out slowdown we saw at the end of 2018 is well behind us.

- On Friday, November's personal income and personal spending reports were released. Personal spending grew by 0.4 percent, which was in line with expectations. Personal income grew by more than expected, up 0.5 percent during the month against forecasts for 0.3 percent. October's personal income growth was also revised upwards, from flat to 0.1 percent. This was an encouraging result that calmed fears of a slowdown in personal income growth. Personal spending has been strong this year, as this is the ninth straight month of spending growth.
- We finished the week with Friday's release of the second and final reading of the University of Michigan consumer sentiment survey for December. The index increased slightly from an initial estimate of 99.2 to a final result of 99.3, due to improvements to the current situation subindex. This final read of 99.3 is much better than economist forecasts for 97 at the start of the month. A better-than-expected November jobs report and equity markets near all-time highs both support higher consumer confidence levels. This marks the fourth straight month of increasing confidence, helping calm concerns following a surprising drop to a two-year low for the index in August.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	1.68	2.68	31.05	33.21
Nasdaq Composite	2.19	3.06	35.95	38.21
DJIA	1.14	1.57	24.98	27.54
MSCI EAFE	0.64	2.75	21.43	21.97
MSCI Emerging Markets	1.97	6.60	17.48	18.46
Russell 2000	2.10	3.02	25.69	27.93

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.23	8.54	9.00
U.S. Treasury	–0.66	6.75	7.31
U.S. Mortgages	0.05	6.11	6.70
Municipal Bond	0.23	7.45	7.73

Source: Morningstar Direct

What to Look Forward To

We started the week with Monday's release of November's durable goods orders report. The numbers came in worse than expected, falling by 2 percent instead of showing the anticipated 1.5 percent growth. Much of the weakness in headline orders can be attributed to a slowdown in volatile defensive aircraft orders, which were down significantly. Core durable goods orders, which strip out the impact of transportation orders, were flat for the month. Core durable goods orders are often considered as a proxy for business investment, so the flat results were a silver lining in an otherwise disappointing data release.

Also on Monday, November's new home sales report was released. Sales increased by 1.3 percent during the month, beating expectations for a modest 0.1 percent decline. Sales increased in the Northeast and West but remained flat in the Midwest and declined in the South. These results left new home sales at their third-highest monthly level since 2007. On a year-over-year basis, new home sales are up by more than 18 percent, highlighting the rebound in the housing sector we've seen this year.

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