Weekly Market Update

General Market News

- Last week, the 10-year Treasury yield closed at 1.95 percent after the New Year holiday. On Monday, it opened at 1.75 percent on concerns of global tensions with the U.S. and Iran. The 30-year moved from 2.41 percent to 2.21 percent, and the 2-year moved from 1.60 percent to 1.50 percent. The bond market seems to be waiting for more economic data and commentary from the Federal Open Market Committee to choose a general direction, but short-term uncertainty will add pressure on rates to move lower.
- Global equities were slightly mixed last week. The week began on a relatively quiet note, with the focus on the underlying details of the "phase one" trade deal between the U.S. and China. The agreement is expected to be signed on January 15, according to a tweet made by President Trump. There are still questions to be answered regarding subsidies and China's commitment to imports and agricultural purchases, however.
- Investors pivoted away from risk following the U.S. airstrike that killed Iranian general Qasem Soleimani. Crude oil gained 2.2 percent as a result. Gold also increased by 2.3 percent. Last week's top-performing sectors included industrials, energy, and technology. The worst-performing sectors included materials, consumer staples, and health care.
- On Tuesday, the final reading of the Conference Board Consumer Confidence Index for 2019 was released. The index fell to 126.5 in December against expectations for a rise to 128.5. Consumer confidence remained virtually flat during the fourth quarter, which is disappointing given the improving employment situation and strong equity market performance. While confidence is high on an absolute basis, the lack of growth in the fourth quarter is unfortunate, as confidence growth supports faster consumer spending growth. There is no immediate cause for concern here, but this will be an important area to monitor.
- On Friday, the Institute for Supply Management (ISM) Manufacturing index for December was released. Manufacturer confidence fell in December to 47.2 against expectations for a rise to 49. This is a diffusion index, where values below 50 indicate contraction, so this continued weakness is disappointing. The index now sits at its lowest level since June 2009—the announcement of a preliminary "phase one" trade deal between the U.S. and China was not enough to boost manufacturer confidence during the month. This index has declined sharply for most of the year, falling from a post-recession high of 60.8 in August. Weakening global demand for manufactured goods, along with a slowdown in domestic business investment, have been the major drivers for declining manufacturer confidence this year. There's some hope for improvement if further trade talks between the U.S. and China go well; however, as we saw last month, even continued progress toward a resolution might not be enough to quickly boost manufacturer confidence.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–0.12	0.15	0.15	34.82
Nasdaq Composite	0.18	0.55	0.55	41.08
DJIA	0.00	0.38	0.38	29.31
MSCI EAFE	–0.01	0.27	0.27	23.04
MSCI Emerging Markets	0.48	0.83	0.83	21.44
Russell 2000	–0.42	–0.44	–0.44	26.61

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.54	0.54	8.56
U.S. Treasury	0.72	0.72	6.75
U.S. Mortgages	0.15	0.15	5.95
Municipal Bond	0.42	0.42	7.51

Source: Morningstar Direct

What to Look Forward To

We'll start the week with Tuesday's release of November's international trade report. The trade deficit is expected to narrow, from $47.2 billion in October to $44.5 billion in November. The combination of rising exports and declining imports is set to shrink the trade deficit to a 16-month low. Previously reported data shows that the end of the General Motors (GM) strike led to a rise in motor vehicle exports in November, which accounts for roughly half of the anticipated increase in exports. Imports are forecasted to fall, based on declining purchases of consumer goods due to the tariffs imposed in September. The phase one trade agreement between the U.S. and China is set to roll back these tariffs, so the slowdown in imports may be temporary. If the estimates hold, trade would likely become a driver of faster economic growth for the fourth quarter, following two quarters as a headwind.

On Tuesday, we'll receive the ISM Nonmanufacturing index for December. This gauge of confidence for the service sector is expected to increase from 53.9 in November to 54.5 in December. As the service sector makes up the lion's share of the economy, such an increase would be quite welcome, helping offset concerns about a slowdown in manufacturing. If the index does rise as predicted, the ISM Composite index (which combines manufacturer and nonmanufacturer confidence) would sit at a level that has historically indicated gross domestic product growth below 2 percent. Although

What to Look Forward To (continued)

sub-2 percent growth may not be eye-catching, slow growth is still growth and certainly better than the alternative.

Finally, on Friday, the December employment report is set to be released. The forecast is for 158,000 new jobs, following November's better-than-expected 266,000 new jobs. November's figure was boosted by roughly 40,000 GM employees returning to work after being on strike for most of September and October. Even accounting for that onetime boost, the pace of new job creation appears to be picking up toward year-end. This would be a positive development given the slowdown we saw at the start of 2019. In addition, the underlying data is expected to show a healthy jobs market, with unemployment remaining at 3.5 percent to tie a 51-year low. Wage growth is set to increase by 0.3 percent for December, which would translate to year-over-year growth of 3.1 percent. If these estimates are accurate, this report would be a solid way to finish out 2019, positioning the economy for further job growth in 2020.

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