

Weekly Market Update



General Market News

- The bond markets experienced more volatility last week. The 10-year Treasury yield was as low as 1.70 percent and as high as 1.90 percent as a result of news from Iran. It opened at 1.83 percent on Monday. The 30-year bounced between 2.19 percent and 2.38 percent before opening at 2.29 percent. The 2-year, which is usually more stable given its shorter duration, swung between 1.44 percent and 1.61 percent.
- The three major domestic averages were up last week following the de-escalation in the U.S.-Iran conflict. The U.S. did not take any additional military actions against Iran after the ballistic missile strike of two Iraqi airbases that were housing American military personnel. Instead, the U.S. decided to impose sanctions on Iran, which caused markets to rally due to a pickup in volatility and oil prices. Both fell following President Trump's Wednesday morning address.
- The top-performing sectors were communication services, technology, and health care. Energy, which saw prices fall after the de-escalation, was the worst-performing sector, followed by materials and industrials.
- Tuesday saw the release of the Institute for Supply Management (ISM) Nonmanufacturing index for December. Service sector business confidence rose from 53.9 in November to 55 in December, against expectations for a more modest rise to 54.5. This better-than-expected result helped calm fears of further economic slowdown following the disappointing results for manufacturer confidence during the month. This also caused the ISM composite index, which combines manufacturer and service sector confidence, to reach a four-month high.
- On Friday, the December employment report was released. About 145,000 new jobs were added during the month, which was less than the 160,000 that were expected. This result is disappointing given the better-than-expected job creation we saw in the previous two months; however, it was still strong enough to ensure that new jobs grew at their fastest quarterly pace since the first quarter of 2019. The underlying data was mixed. Wage growth also came in below expectations, but unemployment remained unchanged at a 51-year low of 3.5 percent. Unemployment fell from 6.9 percent to 6.7 percent, which is a post-recession low.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	0.98	1.13	1.13	28.30
Nasdaq Composite	1.76	2.32	2.32	32.82
DJIA	0.67	1.05	1.05	23.03
MSCI EAFE	-0.09	0.19	0.19	17.60
MSCI Emerging Markets	0.88	1.72	1.72	16.46
Russell 2000	-0.18	-0.62	-0.62	16.35

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.45	0.45	9.20
U.S. Treasury	0.51	0.51	7.59
U.S. Mortgages	0.26	0.26	6.66
Municipal Bond	0.72	0.72	8.08

Source: Morningstar Direct



What to Look Forward To

We'll start the week with Tuesday's release of the December Consumer Price Index. This measure of consumer inflation is set to rise by 0.2 percent during the month, following a 0.3 percent increase in November. Year-over-year headline consumer inflation is expected to hit 2.4 percent, up from 2.1 percent in November. Core inflation, which strips out the impact of volatile food and energy prices, should rise by 0.2 percent during the month. This result would translate to year-over-year core consumer inflation of 2.3 percent. This forecast can be partially attributed to a rollback on September's tariffs on consumer goods from China, which is set to occur as part of the phase one trade deal.

Wednesday will see the release of the December Producer Price Index, which is expected to go up

by 0.2 percent, following a flat November. Year-over-year producer inflation is set to increase by 1.3 percent, up from 1.1 percent in November. Producer inflation fell sharply in November, as the prices for services dropped due to price cutting related to the trade war. But, although both consumer and producer prices are set to increase during December, inflation remains well within the Federal Reserve's stated 2 percent target range. We're unlikely to see any changes to the federal funds rate in the short term.

On Thursday, the December retail sales report will be released. Sales are expected to grow by 0.3 percent, following a 0.2 percent gain in November. This would mark the third straight month with solid retail sales growth, after a surprise decline in September. Consumer

What to Look Forward To (continued)

spending growth has been the major driver of gross domestic product (GDP) growth over the past year, so a strong result in December would bode well for fourth-quarter GDP growth. Core sales, which strip out the impact of auto and gas prices, are expected to show solid 0.4 percent monthly growth, indicating that consumers are still willing and able to spend.

Thursday will also see the release of the December National Association of Home Builders Housing Market Index. This gauge of home builder confidence is expected to fall from 76 in November to 74 in December. November's result was a 20-year high for the index, so a pullback is not worrisome. Home builder confidence rebounded impressively in 2019, after falling to a three-year low of 58 in December 2018. Lowered mortgage rates were the driver, sending more prospective buyers into the market throughout the past year. Home builders took notice and ramped up new construction to meet the additional demand.

Speaking of new construction, Friday will see the release of December's building permits and housing starts reports. Permits are expected to decline slightly, while economists predict housing starts to rise from 1,365,000 to 1,380,000. If this estimate holds, housing starts would be at their highest monthly level since the summer of 2007. The housing rebound was one of the bright spots for economic growth in 2019, so more new homes

and construction spending would be quite welcome in markets with a constrained supply.

Friday will also see the release of December's industrial production report. Production is expected to come in flat for the month. In contrast, we had a better-than-expected 1.1 percent gain in November, boosted by the end of the General Motors strike and the associated growth in auto manufacturing. Manufacturing output is set to increase by a modest 0.2 percent for December, following growth of 1.1 percent in November. The anticipated slowdown is not surprising, given the very weak manufacturer confidence we've seen over the past few months. Still, growth would be encouraging, even if it's slower than November's.

Finally, we'll finish out the week with Friday's release of the University of Michigan consumer confidence survey for January. Economists expect confidence to fall slightly, from 99.3 in December to 99.2 in January. December's sentiment came in higher than originally estimated, so a pullback would not be an immediate cause for concern. The employment report for December, which slightly missed predictions, is likely one of the primary factors causing economists to forecast a pullback. A healthy jobs market is a major driver of consumer sentiment, and improving sentiment typically supports faster spending growth. So, given the largely rangebound nature of the index of the past year, this data release will be important.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg Barclays US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg Barclays US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. Rev. 01/20.

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