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Market Week: May 7, 2018

The Markets (as of market close May 4, 2018)

Despite a closing rally last Friday, large caps closed the week down from the prior week. The tech-heavy Nasdaq and the small caps of the Russell 2000 fared better, up 1.26% and 0.60%, respectively. The jobs report sent mixed messages to investors, with the lowest unemployment rate in several years being offset by minuscule wage growth. Mixed corporate earnings reports coupled with the Fed's decision to maintain interest rates raised the question of whether economic growth is slowing. Meanwhile, the rhetoric following trade talks between the United States and China seemed positive. Actions may speak louder than words, however, as China shut off all imports of U.S. soybeans in apparent retaliation for U.S. tariffs.

The price of crude oil (WTI) continues tracking higher. Last week's closing price of \$69.81 per barrel was up from the prior week's closing price of \$68.26 per barrel. The price of gold (COMEX) fell to \$1,316.70 by early Friday evening, down from the prior week's price of \$1,337.60. The national average retail regular gasoline price increased to \$2.846 per gallon on April 30, 2018, \$0.048 higher than the prior week's price and \$0.435 more than a year ago.

Market/Index	2017 Close	Prior Week	As of 5/4	Weekly Change	YTD Change
DJIA	24719.22	24311.19	24262.51	-0.20%	-1.85%
Nasdaq	6903.39	7119.80	7209.62	1.26%	4.44%
S&P 500	2673.61	2669.91	2663.42	-0.24%	-0.38%
Russell 2000	1535.51	1556.24	1565.60	0.60%	1.96%
Global Dow	3085.41	3075.04	3044.54	-0.99%	-1.32%
Fed. Funds target rate	1.25%-1.50%	1.50%-1.75%	1.50%-1.75%	0 bps	25 bps
10-year Treasuries	2.41%	2.95%	2.95%	0 bps	54 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Week's Economic Headlines

- While noting that the labor market has continued to strengthen and that economic activity has been rising at a moderate rate, the Federal Open Market Committee nevertheless decided to maintain the federal target rate range at 1.50% to 1.75%, essentially due to moderated household spending. The Committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate. After indicating that the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data, there is nothing in the Committee's statement to indicate whether rates would be increased following its next meeting in June.
- There were 164,000 new jobs added in April, according to the latest employment figures from the Bureau of Labor Statistics. But the big news is that the unemployment rate dropped to 3.9% — the lowest it's been since December 2000. Wages didn't gain much, increasing a scant 0.1% last month. Over the



Key Dates/Data Releases

5/8: JOLTS

5/9: Producer Price Index

5/10: Consumer Price Index,
Treasury budget

5/11: Import and export
prices

past 12 months, wages have increased 2.6%, which equates to a mere \$0.67 — certainly not a sign of building inflationary pressures. The average workweek was unchanged at 34.5 hours.

- According to the latest report from the Bureau of Economic Analysis, consumer income and spending increased in March. Consumer income rose 0.3% for the month, the same increase as February. Consumer spending rose 0.4% following no gain in February. The personal consumption expenditures price index didn't change from February. However, both the PCE price index and the core (excluding food and energy) price index are up 2.0% and 1.9%, respectively, over the last 12 months — right at the target inflation rate sought by the Federal Open Market Committee.
- According to the Bureau of Economic analysis, the international trade in goods and services deficit was \$49.0 billion in March, down \$8.8 billion from February. March exports were \$208.5 billion, \$4.2 billion more than February exports. March imports were \$257.5 billion, \$4.6 billion less than February imports. Year-to-date, the goods and services deficit increased \$25.5 billion, or 18.5%, from the same period in 2017. Exports increased \$39.2 billion, or 6.8%. Imports increased \$64.7 billion, or 9.1%.
- Manufacturing conditions continued to improve in April, as evidenced by the IHS Markit final U.S. Manufacturing Purchasing Managers' Index™, which registered its highest level since September 2014. The production of goods accelerated and new orders grew while exceeding the pace of output. Purchasing manager respondents suggested that greater global demand for raw materials and recently introduced tariffs were key factors in increasing costs of production. This, in turn, led to average prices rising at the quickest pace since June 2011.
- While the Markit PMI™ report was very positive, the Manufacturing ISM® Report On Business® was not so glowing — at least at first blush. The survey saw the April PMI® decrease 2.0 percentage points from March. New orders, production, employment, and inventories all regressed, while supplier deliveries and prices increased. While the numbers may indicate a slowdown in manufacturing, the respondents were quite encouraged with manufacturing overall. For instance, the Backlog of Orders Index reached its highest reading since May 2004. Production and employment continue to expand, but have been restrained by labor and skill shortages. The Prices Index is at its highest level since April 2011.
- The latest Non-Manufacturing ISM® Report On Business® revealed business activity slowed in that sector during April. Employment and supplier deliveries held down the rate of growth for non-manufacturing industries. New orders and prices increased in April over March. According to the report, "respondents have expressed concern regarding the uncertainty about tariffs and the effect on the cost of goods. Overall, the respondents remain positive about business conditions and the economy."
- In the week ended April 28, there were 211,000 initial claims for unemployment insurance, an increase of 2,000 from the previous week's level. The advance insured unemployment rate fell to 1.2%. The advance number of those receiving unemployment insurance benefits during the week ended April 21 was 1,756,000, a decrease of 77,000 from the prior week's level, which was revised down by 4,000. This is the lowest level for insured unemployment since December 8, 1973, when it was 1,717,000.

Eye on the Week Ahead

The first noteworthy economic reports for April are out this week, including the Consumer Price Index and the Producer Price Index. The latest import and export prices for April could begin to show the impact, if any, of the recent trade policies adopted by the United States.

Data sources: News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. Market data: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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