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FINANCIAL MARKET UPDATE
10/12/18

THE WEEK IN REVIEW

Recent weakness in global equity markets accelerated mid-week as the S&P 500 index declined 5.3% over Wednesday and Thursday. The rapid rise in U.S. Treasury bond yields to multi-year highs was the main trigger behind the decline. Yet several other factors also contributed including more hawkish commentary from Fed officials in recent weeks. Additionally, negative commentary from the management teams of several industrial and material companies in recent days about the adverse effects on corporate margins of rising input and labor costs further spooked investors. Finally weaker global growth forecast from the IMF, and continued trade tensions with China weighed on sentiment.

The energy, technology, financials, and industrials sectors experienced the worst two-day performance among the eleven S&P 500 sectors as each lost close to 6.0% or more. Some of the best performing S&P 500 technology and discretionary stocks this year including Netflix, Amazon, Nvidia, and Advanced Micro Devices experienced sharp losses near 10.0% over the two-day sell-off. Even defensive sectors were not immune as the utilities and consumer staples sectors lost 2.5% and 3.4%, respectively. The S&P 500 stabilized on Friday with a daily 1.4% gain. Third quarter earnings reports from a few large banks on Friday renewed focus on strong corporate earnings which analysts expect to grow over 20% in the third quarter for the S&P 500.

With rates on the rise since near the end of August, it took a while for investors to notice as the S&P 500 posted a positive return into the end of the quarter. The tone and guidance provided immediately after the last Federal Open Market Committee (FOMC), and in speeches by its members since, appeared to finally spook investors. Interest rates have pushed higher since the end of September along with market-based measures of inflation expectations, while real growth prospects for the economy remained robust. Inflation indicators released this week actually showed that the year-over-year advance of both headline and core measures slowed in September. While one-year consumer expectations for inflation did increase to 2.8%, their longer term outlook for inflation declined to 2.3%, suggesting consumers' outlook for inflation is well anchored around the Fed's target. While the Fed has been hawkish in recent commentary, observed financial conditions remain relatively loose.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
NFIB Small Business Optimism	107.9	107.2	▲
Producer Price Index (YoY)	2.6%	3.4%	▼
Core Consumer Price Index (YoY)	2.2%	2.3%	▼
U. of Mich. Consumer Sentiment	99.0	97.9	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25339.99	-4.19%	2.51%	10.94%
NASDAQ	7496.90	-3.74%	8.60%	13.74%
S&P 500 Large Cap	2767.13	-4.10%	3.50%	8.48%
MSCI EAFE	1851.21	-3.94%	-9.73%	-7.24%
Barclays Aggregate US	2004.47	0.49%	-2.05%	-1.78%

KEY BOND RATES	CURRENT	1WK AGO	1MO AGO	1YR AGO
3-Month T-Bill	2.26%	2.21%	2.14%	1.07%
10-Year Treasury	3.17%	3.23%	2.96%	2.32%

REPORTS DUE NEXT WEEK	LATEST
Retail Sales (YoY)	6.6%
JOLTS Job Openings (Millions)	6.939
Housing Starts (Millions Annualized)	1.282
Existing Home Sales (Millions Annualized)	5.340

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.