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# FINANCIAL MARKET UPDATE
1/4/19

## THE WEEK IN REVIEW

The S&P 500 jolted up and down this week with a 2.5% decline on Thursday followed by a 3.4% gain on Friday. Thursday's decline was triggered by weak economic survey data from the manufacturing sectors in the U.S. and China and iPhone-maker Apple's large decline following its reduced revenue guidance for next quarter. Equities rebounded sharply on Friday in response to the stronger-than-expected December employment report. Additionally, comments from Fed officials signaling a more patient interest rate hike approach, and confirmation from Chinese officials that they will host trade talks with the U.S. next week boosted sentiment. The U.S. 10-year Treasury yield also rose on Friday after flirting with a twelve-month low on Thursday.

Comments from Federal Reserve officials this week suggested the Fed could be less aggressive with interest rate increases in 2019. Fed Chairman Jerome Powell said on Friday the Fed does not have a fixed path to raise interest rates, and they will be patient and flexible with monetary policy as they watch how the economy evolves. Powell also said the Fed will be prepared to adjust policy if economic activity slows more than anticipated. Cleveland Federal Reserve President Loretta Mester said the central bank could pause rate increases if inflation does not accelerate. The Fed projected two rate increases this year at their December meeting. Fed fund futures show investors believe there is a 95% probability the Fed will not raise interest rates this year and a 40% probability of a rate cut in 2020.

For most of the week economic data releases were relatively negative with the Institute for Supply Management's (ISM) Manufacturing report for December 2018 failing to meet expectations and mortgage applications declining significantly. Reports released this week through Thursday had driven the Citi Economic Surprise Index for the United States to its lowest level since September 2017. Today's nonfarm payrolls report stopped the Surprise Index's decline as payrolls climbed 312,000 in December, surpassing the most optimistic estimate of 225,000. The report also showed that average hourly earnings continued to rise, painting a picture of a robust labor market, one part of the Fed's dual mandate. Recent data on the second part of that mandate, inflation, have been more benign, supporting Fed commentary since the last FOMC meeting around a wait-and-see approach.

| ECONOMIC INDICATOR | LATEST | 3MO PRIOR | CHANGE |
|---|---|---|---|
| ISM Manufacturing | 54.1 | 59.8 | ▼ |
| Non-Farm Payrolls | 312,000 | 119,000 | ▲ |
| Unemployment Rate | 3.9% | 3.7% | ▲ |
| Average Hourly Earnings (YoY) | 3.2% | 2.8% | ▲ |

| INDEX | LEVEL | WEEK | YTD | 12 MO |
|---|---|---|---|---|
| DJ Industrial Average | 23433.16 | 1.61% | 0.45% | -6.55% |
| NASDAQ | 6738.86 | 2.34% | 1.56% | -4.79% |
| S&P 500 Large Cap | 2531.94 | 1.86% | 1.00% | -7.05% |
| MSCI EAFE | 1710.22 | -0.12% | -0.56% | -18.14% |
| Barclays Aggregate US | 2060.54 | 0.93% | 0.68% | 0.91% |

| KEY BOND RATES | CURRENT | 1WK AGO | 1MO AGO | 1YR AGO |
|---|---|---|---|---|
| 3-Month T-Bill | 2.41% | 2.37% | 2.41% | 1.40% |
| 10-Year Treasury | 2.66% | 2.72% | 2.91% | 2.45% |

| REPORTS DUE NEXT WEEK | LATEST |
|---|---|
| ISM Non-Manufacturing | 60.7 |
| NFIB Small Business Optimism | 104.8 |
| JOLTS Job Openings (Millions) | 7.08 |
| Core Consumer Price Index (YoY) | 2.2% |

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