Week in Review with Maureen Kelliher

January 22 – 26, 2018

Capital Market Implications

By Maureen Kelliher, CFA, Senior Vice President and Investment Officer

Last week's economic releases were generally positive, as manufacturing and consumer reports signaled strength. On the other hand though, several of last week's major releases were below expectations. The initial estimate of gross domestic product for the fourth quarter of 2017 was 2.6%, which missed consensus estimates of 3.0%. Only inventories and net trade detracted from the quarterly increase and, as these are unlikely to repeat, the quarter's underlying growth remained strong. Indeed, personal consumption, the consumer spending component of GDP, registered 3.8%, which was better than expected and well above the prior quarter's level of 2.2%. For December, existing and new homes sales were soft at -3.6% and -9.3%, respectively. Although monthly home sales are volatile, with mortgage rates climbing, this bears watching. Finally, inflation gauges continued to firm, as the PCE deflator quarter-over-quarter rose to 1.9% annualized and increased a more modest 1.5% year-over-year.

With 25% of companies having reported quarterly earnings, S&P 500 profits are on track to rise 12.7%. As such, last week stock markets both here and abroad continued their year-to-date rally. For the week, the S&P 500 Index gained 2.2% while the Dow Jones Industrial Average rose 2.0%. The week's best performing equity sector was health care, which climbed 3.5%. The sector that lagged the most for the week was industrials, which increased 1.2%. With spirits high at the World Economic Forum in Davos, global markets did well last week. The MSCI EAFE Index gained 1.5% while emerging markets surged 3.3%. Bond yields took a breather from their recent ascent and thus bond prices ended the week little changed. As such, for the week overall, the Barclays U.S. Aggregate Bond Index was flat, U.S. corporate bonds rose slightly, high yield bonds gained 0.3% while ten-year municipal bonds lost -0.3%.

Weekly Macro Updates

▲ Strong or improving ▶ Inconclusive or lacking trend ▼ Weak or declining

▲ **Initial Unemployment Claims (week of 1/20)**
235k est., 233k actual, 216k prior

▲ **Continuing Claims (week of 1/13)**
1925k est., 1937k actual, 1965k prior

▲ **Dallas Fed Reserve Manuf Activity (Dec)**
25.4 est., 33.4 actual, 29.7 prior

▲ **Markit U.S. Manufacturing PMI (Jan P)**
55.0 est., 55.5 actual, 55.1 prior

▲ **Markit U.S. Services PMI (Jan P)**
54.3 est., 53.3 actual, 53.7 prior

▶ **Existing Home Sales MoM (Dec)**
-1.9% est., -3.6% actual, 5.1% prior-R-

▲ **New Home Sales MoM (Dec)**
-7.9% est., -9.3% actual, 15.0% prior-R-

▲ **Leading Index (Dec)**
0.5% est., 0.6% actual, 0.5% prior-R+

▲ **Gross Dom Product Annualized QoQ (4Q A)**
3.0% est., 2.6% actual, 3.2% prior

▲ **Durable Goods Orders Ex Transport (Dec P)**
0.6% est., 0.6% actual, 0.3% prior-R+

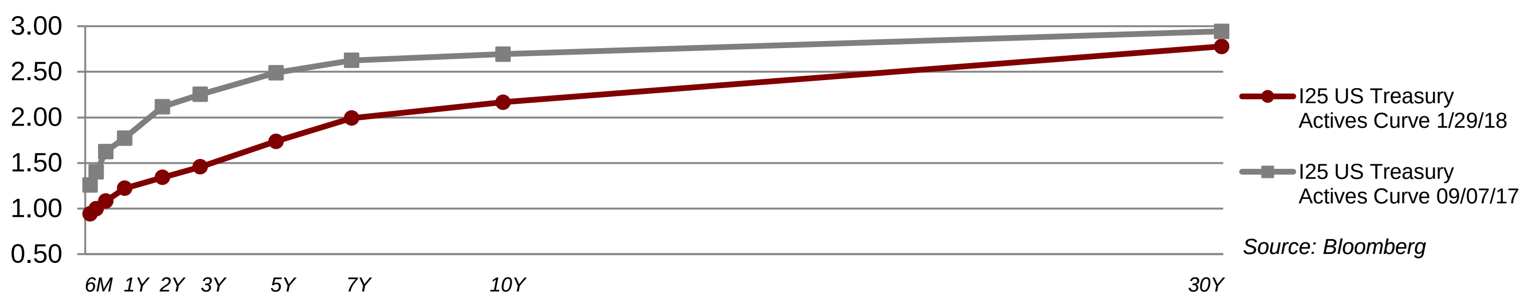
▲ **Capital Goods Ship Nondefense Ex Air (Dec P)**
0.4% est., 0.6% actual, 0.4% prior-R+

▲ **Personal Income (Dec)**
0.3% est., 0.4% actual, 0.3% prior

▲ **Real Personal Spending (Dec)**
0.4% est., 0.3% actual, 0.5% prior

▲ **Personal Consumption Expend Core YoY (Dec)**
1.5% est., 1.5% actual, 1.5% prior

Comparison U.S. Treasury Yield Curve (September 2017 – January 2018)



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