FINANCIAL MARKET UPDATE
1/5/18

THE WEEK IN REVIEW

Global equities began the year with a strong week. The S&P 500 Index and Dow Jones Industrial Average experienced their best start to a year since 2010 and 2006, respectively. The Dow crossed the 25,000 level for the first time Thursday, climbing to 25,000 from 24,000 in just 23 trading days. This marked the blue chip benchmark's fastest pace to a new 1,000 point milestone. Foreign equities also performed well this week. The developed market MSCI EAFE index gained 1.9% and the MSCI Emerging Market index rose 2.9%. Strong equity performance was partly fueled by Purchasing Manager's Index data near multi-year highs in multiple countries. Bond yields also edged higher with the U.S. 10-year Treasury yield touching 2.48%, its highest level since March 2017.

Minutes from the Federal Reserve's December meeting showed officials discussed the potential of raising interest rates more aggressively than expected in 2018 if tax cuts and accommodative financial conditions lead to inflation pressures and stronger economic growth. Fed officials currently forecast three rate increases this year. More than three rate increases appears not to be out of the question since the composition of the Fed's 12 voting members will likely become more hawkish due to President Trump's nominations and the annual rotation of four voting members in January.

The domestic labor market displayed signs of strength in many of the public and private data reports released this week. While the labor force participation rate stayed historically low, the unemployment rate remained at a 17-year low of 4.1%. Additionally, Challenger, Gray & Christmas released a report this week showing that the total number of layoffs announced by U.S.-based employers in 2017 was 418,770. According to the report, this amounted to the fewest number of announced dismissals since 1990, when 316,047 layoffs were announced. Despite the low levels of layoffs and joblessness, average hourly earnings continued to grow at a modest rate of 2.5% on a year-over-year basis. This suggests that either a tight labor market has thus far failed to put significant upward pressure on wages or that the labor market is not as strong as it would otherwise seem, given the historically low labor force participation rate.

The U.S. Treasury yield curve has flattened to around 0.50% in recent weeks compared to 1.25% at the end of 2016. Historically, yield curve inversions have often coincided with slowdowns in economic growth. If the labor market continues to tighten, wage pressure may build, and in turn could push prices higher. Not only did the Institute for Supply Management's Manufacturing index show an improvement in December, but the prices paid and the new orders components of the index shot higher as well. Economic history presents scenarios when inflation rose suddenly with little advance warning. This may explain why the Fed has moved forward with tightening its monetary policy.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Non-Farm Payrolls	148,000	38,000	▲
Unemployment Rate	4.1%	4.2%	▼
ISM Manufacturing	59.7	60.8	▼
ISM Non-Manufacturing	55.9	59.8	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25295.87	2.33%	2.33%	27.12%
NASDAQ	7136.56	3.38%	3.38%	30.04%
S&P 500 Large Cap	2743.15	2.60%	2.60%	20.90%
MSCI EAFE	2089.16	1.87%	1.87%	21.34%
Barclays Aggregate US		-0.21%	-0.21%	2.86%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.39%	1.29%	0.51%
10-Year Treasury	2.47%	2.4%	2.34%

REPORTS DUE NEXT WEEK	LATEST
Retail Sales (MoM)	0.8%
Core Consumer Price Index (YoY)	1.7%
Producer Price Index (YoY)	3.1%
NFIB Small Business Optimism	107.5
JOLTS (Millions)	5.996

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