

THE WEEK IN REVIEW

The S&P 500 index experienced its worst weekly performance in two years. This week's decline follows the S&P 500's best start to a year in decades. Before this week the S&P 500 was up 7.5% year-to-date which would have been the best January since 1987. The index finished January with a 5.6% gain, its best monthly performance since March 2016. Higher interest rates were the main reason for recent weakness in the equity market. The U.S. 10-year Treasury yield reached an intra-day high of 2.85% on Friday, its highest yield since January 2014. Higher inflation expectations from the Federal Reserve and a better-than-expected January employment report contributed to higher interest rates and boosted chances of the Federal Reserve being more aggressive with rate hikes this year.

Federal Reserve Chair Janet Yellen presided over her last Fed meeting this week. President Trump's nominee Jerome Powell will become the new Fed chair next Monday. The Fed left interest rates unchanged and maintained their view on the strength of the economy and job market. The most notable takeaway from the meeting was the post-meeting statement which suggested the Fed raised its inflation expectation for this year. While the Fed currently projects three rates increases this year, stronger inflation could lead to the Fed raising interest rates more than three times this year. Market-implied odds indicate a 93% probability the Fed will hike rates at their March meeting.

The U.S. labor market got off to a good start in 2018, as domestic employers added 200,000 workers to payrolls in January. This was about 20,000 more workers than both the Bloomberg median estimate of economists and the monthly average of 181,000 in 2017. The unemployment rate held steady at a seventeen year low of 4.1%, while average hourly earnings advanced 2.9% in January from the same period one year ago marking the highest level of year-over-year wage growth since 2009. Several commentators have suggested that a tightening labor market and a trend of minimum wage hikes in recent months drove the uptick in wage growth.

Nearly one-quarter of S&P 500 constituents reported quarterly earnings this week headlined by a set of technology giants including Microsoft Corp., Facebook Inc., Amazon.com Inc., Apple Inc. and Alphabet Inc. Of these five, e-commerce and cloud computing leader Amazon.com had the most well-received results boosted by a 38% year-over-year gain in revenue during the quarter to \$60.5 billion.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Personal Income	0.4%	0.5%	▼
Personal Spending	0.4%	1.0%	▼
Core PCE Index (YoY)	1.5%	1.4%	▲
Non-Farm Payrolls	200,000	271,000	▼
Unemployment Rate	4.1%	4.1%	-
ISM Manufacturing	59.1	58.5	▲
Conf. Board Consumer Confidence	125.4	126.2	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25520.96	-4.12%	3.24%	28.34%
NASDAQ	7240.95	-3.53%	4.89%	28.47%
S&P 500 Large Cap	2762.13	-3.85%	3.31%	21.10%
MSCI EAFE	2154.32	-1.38%	5.05%	24.07%
Barclays Aggregate US	2017.33	-0.48%	-1.42%	1.94%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.48%	1.39%	0.50%
10-Year Treasury	2.84%	2.46%	2.47%

REPORTS DUE NEXT WEEK	LATEST
ISM Non-Manufacturing	59.1
JOLTS (Millions)	5.879

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

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