

THE WEEK IN REVIEW

Investor sentiment seemed to stabilize this week as all three major U.S. stock averages rebounded from last week's declines. The S&P 500 Index climbed 4.7% for the week, while the NASDAQ posted a 5.5% gain. Both the Dow Jones Industrial Average and S&P 500 have clawed back a little more than half of the sharp 10%-plus declines suffered from January 26 to February 8.

Investors received an update on the inflation picture this week, as the Bureau of Labor Statistics reported Wednesday the U.S. Consumer Price Index (CPI) registered a 0.5% gain for January 2018 and a year-over-year growth rate of 2.1%. Transportation and apparel prices were higher by 1.8% and 1.7%, respectively, in January. Gasoline prices rose 5.7%, feeding a 3.0% increase in energy prices. Medical care rose 0.4%. Some investors suggested the recent data may be a preliminary indication of a pickup in inflation after several years of suppressed price gains.

Industrial production data for January indicated modest weakness as production fell 0.1% in the first month of 2018. Manufacturing came in flat for the month, and was up only 1.8% for the year. Capacity utilization was down from the prior 77.9% to 77.5%. While this week's CPI data may support a more hawkish Fed, the industrial production report may dictate a more muted Federal Reserve response. The University of Michigan Survey of Consumers rose in early February to its second highest level since 2004 despite stock market volatility. The reading of 99.9 was supported by rising incomes, employment growth, and a favorable perception of tax reform. The report signaled high levels of confidence in the economy among U.S. consumers.

Consumers cut back on purchases of cars, furniture, and other products in January, pushing retail sales down 0.3%, the largest decline in 11 months. Economists had forecast retail sales climbing 0.2% in January. Additionally, data for December was revised to show sales unchanged instead of rising 0.4% as previously reported. One of the largest detractors, auto sales, fell 1.3% after slipping 0.1% in December. The slowdown follows significant retail sales increases which pushed 2017 to the largest calendar year retail sales growth rate in three years. The retail landscape continues to see a surge in online retail sales while department store spending declines.

New home construction increased to more than a one-year high in January, strengthened by a rebound in building of single family homes. Housing starts increased 9.7% to a seasonally adjusted annual rate of 1.326 million units compared to 1.234 million expected units. Further gains seem possible as building permits jumped 7.4% to their highest level since 2007. Demand for housing is being driven by a strengthening labor market, but rising mortgage rates and house prices could impact recent momentum. The 30-year fixed mortgage rate rose to an average of 4.38% this week, the highest level in nearly four years.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Core Consumer Price Index (YoY)	1.8%	1.8%	-
Retail Sales (MoM)	-0.3%	0.7%	▼
Housing Starts (Millions Annualized)	1.3	1.3	▲
U. of Mich. Consumer Sentiment	99.9	98.5	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25219.38	4.25%	2.02%	22.31%
NASDAQ	7239.47	5.31%	4.87%	24.50%
S&P 500 Large Cap	2732.22	4.30%	2.19%	16.40%
MSCI EAFE	2058.66	3.33%	0.38%	17.01%
Barclays Aggregate US	2000.76	-0.32%	-2.23%	0.93%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.59%	1.42%	0.52%
10-Year Treasury	2.87%	2.54%	2.45%

REPORTS DUE NEXT WEEK	LATEST
Jobless claims (Thousands)	230
Existing Home Sales (YoY)	1.1%
Leading Economic Indicators (MoM)	0.6%

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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