

THE WEEK IN REVIEW

The three major U.S. equity averages shook off negative sentiment earlier in the week to flirt with all-time highs on Friday. The blue-chip Dow Jones Industrials Average achieved record closing highs on Wednesday, Thursday and Friday. Meanwhile, yields on the benchmark 10-year U.S. Treasury bond declined about five basis points (or 0.05%), while domestic crude oil prices advanced 5.4%.

The turning point for both domestic stock and bond prices during the week seemed to be Wednesday's market-friendly comments from Federal Reserve Chair Janet Yellen during her semi-annual Congressional testimony. In her prepared remarks, Yellen described a domestic economy which "...while growing slowly, continued to add jobs, benefited from steady household consumption and a recent jump in business investment..." Critically, she noted given the current economic environment, the benchmark federal funds rate potentially "would not have to rise all that much further" to achieve a neutral policy level. The prospects for fewer rate hikes before the completion of the current business cycle was music to the ears of both equity and bond investors.

Looking across the global equity landscape, several emerging market equity indexes were among this week's highest fliers. The Brazilian Ibovespa Index jumped 8.2% in dollar terms over the past five days after former President Luiz Inacio Lula da Silva was sentenced to nearly ten years in prison on corruption charges. Lula da Silva's pending incarceration removes the chances of his running in the 2018 presidential election against pro-business interim president Michel Temer.

On the U.S. economic front, a Commerce Department report on Friday indicated retail sales, a measure of consumer spending at stores, restaurants and websites, decreased a seasonally adjusted 0.2% in June from the prior month. Retail sales had declined a revised 0.1% in May, marking the first back-to-back sales drop since July and August 2016. Excluding automobiles, gasoline, building materials and food services, retail sales slipped 0.1% last month after being unchanged in May. These so-called core retail sales correspond most closely with the consumer spending component of gross domestic product. Overall retail sales rose 3.9% in the first half of 2017 compared with the same period a year earlier, outpacing the recent trend for consumer-price inflation.

U.S. consumer prices held flat in June as the cost of gasoline, airline tickets, new and used cars and wireless phone plans declined further, signaling that inflation remains muted. The Labor Department announced on Friday that the unchanged reading in its Consumer Price Index (CPI) followed a 0.1% dip in May. In the twelve months through June, the CPI increased 1.6%, the smallest gain since October 2016, after rising 1.9% in May. The year-on-year CPI has been softening steadily since February, when it hit 2.7%. Core CPI, which strips out food and energy costs, edged up 0.1% last month, rising by the same margin for three straight months.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
JOLTS (Millions)	5.67	5.68	▼
Producer Price Index (YoY)	2.0%	2.3%	▼
Core Consumer Price Index (YoY)	1.7%	2.0%	▼
U. of Mich. Consumer Sentiment	93.1	97.0	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	21637.74	1.04%	9.49%	16.92%
NASDAQ	6312.47	2.59%	17.26%	25.40%
S&P 500 LargeCap	2459.27	1.41%	9.85%	13.66%
MSCI EAFE	1904.89	1.64%	13.12%	15.14%
Barclays Aggregate US		0.34%	2.24%	-0.63%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.03%	1.00%	0.31%
10-Year Treasury	2.33%	2.13%	1.54%

REPORTS DUE NEXT WEEK	LATEST
Housing Starts (Millions)	1.09
Leading Economic Indicators	0.3%
Building Permits (thousands)	1,168

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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