FINANCIAL MARKET UPDATE
7/21/17

THE WEEK IN REVIEW

The S&P 500 Index and NASDAQ Composite pushed higher this week on their way to touching new all-time highs. Meanwhile the Dow Jones Industrial Average lost a bit of steam to fall 0.3% on the week, weighed down by share price declines in component stocks IBM Corporation, Goldman Sachs Group, Inc., The Home Depot, Inc., and General Electric. Disappointing second quarter revenue growth in its key technology services and cloud platforms segment pressured IBM shares, while Goldman had its worst quarter ever in Fixed Income, Currency and Commodities trading. Home Depot shares fell on concerns surrounding Amazon.com, Inc.'s deal with Sears Holdings Corporation to sell Kenmore appliances on the e-commerce giant's website. Finally, General Electric stock declined following management's indication that 2017 earnings per share and operating cash flows will be pressured by further weakness in its oilfield equipment business.

In fixed income markets, U.S. government bond prices rose, as the yield on the benchmark 10-year U.S. Treasury bond dipped about 0.09% to close at 2.247% (prices move inversely to yields). The pullback in yields over the last two weeks from an eight week high of 2.39% reached on July 7 seems to have been driven by Fed Chair Janet Yellen's July 12 Congressional testimony comments that were more dovish than expected combined with soft June retail sales and inflation data. Bond market participants have slightly scaled back their expectations for more Fed rate hikes in 2017. Fed fund futures market-implied probability of one more quarter point rate hike in 2017 to a range of 1.25% to 1.50% stands at approximately 40.8%, compared to about 43.3% last week and 45.0% in the final week of May.

The U.S. dollar fell to a two-year low versus the euro this week after European Central Bank (ECB) President Mario Draghi said the central bank plans to have discussions this fall regarding the timing for reducing its asset purchase program. The ECB's current asset purchase program includes buying €60 billion worth of bonds per month until "December 2017, or beyond, if necessary." Expectations for the ECB to start reducing monetary stimulus this year have contributed to the dollar weakening approximately 10% this year versus the euro. Japan's central bank also met this week. The Bank of Japan kept its monetary policy unchanged and lowered its inflation forecast for the sixth time. In recent months, central bank officials in the U.S., Europe, and Japan have made comments expressing their confidence in the strength of their economies, but inflation remains below their targets.

Turning to the domestic economy, housing starts rebounded 8.3% in June after falling the previous three months. Economists suggested this spring's weak activity was due to more activity during the mild winter. Despite multiple headwinds including rising lumber prices and shortages in labor and land, home construction is up 3.9% in the first half of this year compared to the same period last year. These headwinds have caused a recent decline in home builder optimism, but overall optimism remains high compared to the entire post-financial crisis period, according to a National Association of Home Builders survey.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Housing Starts (Millions Annualized)	1.215	1.189	▲
Leading Economic Indicators	0.6%	0.4%	▲
Building Permits (Millions Annualized)	1.254	1.260	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	21580.07	-0.27%	9.20%	16.54%
NASDAQ	6387.75	1.19%	18.66%	25.89%
S&P 500 Large Cap	2472.54	0.54%	10.44%	14.20%
MSCI EAFE	1937.82	0.99%	15.07%	16.94%
Barclays Aggregate US		0.38%	2.75%	-0.02%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.16%	0.98%	0.31%
10-Year Treasury	2.24%	2.16%	1.56%

REPORTS DUE NEXT WEEK	LATEST
Existing Home Sales (Millions Annualized)	5.62
Conf. Board Consumer Confidence	118.9
New Home Sales (Thousands Annualized)	610
Durable Goods Orders	-0.8%
GDP (Annualized)	1.4%

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