FINANCIAL MARKET UPDATE
8/25/17

THE WEEK IN REVIEW

Positive sentiment returned to U.S. equity markets this week following an air pocket over the last two weeks which saw the S&P 500 Index decline 2.1% from August 4 to August 21. This week, both the S&P 500 and the Dow Jones Industrial Average advanced at least 0.7%, as investors seemed buoyed by reports of progress on efforts to reform the U.S. corporate tax code. The advances materialized despite increased concerns of a federal government shutdown related to debt ceiling negotiations and potential funding for a Southern border wall.

In fixed income markets, prices on the benchmark 10-year U.S. Treasury note rose slightly, as yields fell 0.02% from 2.19% to 2.17%. Yields are above their year-to-date intraday low of 2.10% which was reached on June 14, but well below their post-election high of 2.63% from March 13. In commodity markets, U.S. crude oil prices declined 1.8% on the week, while gasoline prices advanced 2.1% as Hurricane Harvey bore down on the refineries of Texas' gulf coast.

At this week's gathering of global central bankers in Jackson Hole, Wyoming, most observers were especially interested in comments from headliners Fed Chair Janet Yellen and her ECB counterpart, Mario Draghi. On Friday, Yellen focused on the benefits of post-crisis financial regulations, arguing that any rollback of regulatory reform implemented in the last nine years should be "modest." Yellen's term as Fed Chair ends in February, creating speculation about whether President Trump will reappoint her or possibly turn to Director of the Economic Council and former Goldman Sachs COO, Gary Cohn.

Investors received an update on the U.S. housing market this week, as sales of previously owned homes dropped to their lowest level of the year in July. The dynamics of lean supply and strong demand continue to exert strain. Existing home sales decreased 1.3% last month, according to a report released by the National Association of Realtors, to an annual rate of 5.44 million in July after tumbling 2.0% to a downwardly revised 5.51 million in June. Inventories were 9% lower than a year ago, suggesting supply pressures. New home sales also fell in July, dropping to their lowest level in seven months. The Commerce Department announced that new home sales dropped 9.4% to a seasonally adjusted annual rate of 571,000 units last month, the lowest level since December 2016. New home sales, which account for nearly 10% of overall housing sales, declined 8.9% since July 2016.

On Friday, the Commerce Department reported a sharp pullback in July durable goods orders. Durable goods, items meant to last at least three years, plunged 6.8% in July after surging 6.4% in June. The larger-than-expected pullback in orders was due to a 19.0% drop in orders for transportation equipment, a month after a one-time surge in orders for civilian aircraft related to Boeing orders from the June Paris Air Show. Encouragingly, orders for core capital goods, a proxy for business investment, rose 0.4% in July.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
New Home Sales (Thousands Annualized)	571	590	▼
Existing Home Sales (Millions Annualized)	5.44	5.56	▼
Durable Goods Orders	-6.8%	-8.0%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	21813.67	0.64%	10.38%	18.24%
NASDAQ	6265.65	0.79%	16.39%	20.21%
S&P 500 Large Cap	2443.05	0.72%	9.12%	12.45%
MSCI EAFE	1919.54	0.15%	13.99%	12.77%
Barclays Aggregate US		0.05%	3.26%	0.19%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.00%	1.15%	0.32%
10-Year Treasury	2.17%	2.34%	1.57%

REPORTS DUE NEXT WEEK	LATEST
ISM Manufacturing	56.3
ISM Non-Manufacturing	53.9
Unemployment Rate	4.3%
Non-Farm Payrolls	209,000
U. of Mich. Consumer Sentiment	97.6

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