FINANCIAL MARKET UPDATE
9/1/17

Citizens TRUST AND INVESTMENT CORPORATION

## THE WEEK IN REVIEW

The impact of Tropical Storm Harvey caused shares of energy and insurance companies to weigh on the U.S. stock market early in the week, but upbeat economic data boosted the market later in the week. Energy and insurance stocks fell Monday and Tuesday as the storm forced almost a quarter of U.S. oil refiners to close. Analysts estimate the economic cost from flood and wind damage could be tens of billions of dollars, making Harvey one of the most costly natural disasters in U.S. history. On the international front, the markets received another jolt Tuesday morning when North Korea fired a missile over Japan. This latest incident caused investors to seek out safe haven assets, which led to the U.S. 10-year Treasury yield falling to a 2017 low of 2.09% that morning, before recovering later in the session.

According to the Conference Board, consumer confidence currently stands at its second highest level since 2000. Both the current conditions and expectations components showed improvement from the prior month, with the former rising to 151.2, its highest level since July 2001. After initially estimating that gross domestic product increased 2.6% during the second quarter, the Commerce Department's second estimate shows the economy likely expanded at 3% during that time. The upward revision was largely driven by consumer spending and nonresidential fixed investment.

Despite the high level of consumer confidence, GDP growth, and the relatively tight labor market in the U.S., core inflation remains subdued, and actually seems to be trending away from the Fed's inflation target of 2%. The Personal Consumption Expenditure Core Price Index, the Fed's preferred measure of inflation, showed that prices in July had only increased 1.4% over the prior twelve months. While the Fed has failed to reach its inflation target since it began raising rates, financial conditions have actually grown looser, which has driven a debate among members of the Federal Open Market Committee (FOMC) about raising rates further. It appears that roughly half of the members want to wait to see inflation begin trending towards two percent again before raising rates, while the other half wants to continue raising rates. Based on data from the futures market, investors appear to believe that the FOMC will be forced to delay their pace of rate hikes.

Friday's August employment report was mildly disappointing, with growth of payrolls and wages slowing more than expected. Payrolls grew 156,000 versus analysts' expectations of 180,000. Wages barely grew in August, up just 0.1%, and the unemployment rate ticked up to 4.4% from 4.3% in July. There may be a seasonal bias in August employment data since the month has been unusually weak the last three years. Tropical Storm Harvey did not impact the report as the storm hit after the survey period.

| ECONOMIC INDICATOR | LATEST | 3MO PRIOR | CHANGE |
|---|---|---|---|
| Non-Farm Payrolls | 156,000 | 145,000 | ▲ |
| Unemployment Rate | 4.4% | 4.3% | ▲ |
| Conf. Board Consumer Confidence | 122.9 | 117.6 | ▲ |
| ISM Manufacturing | 58.8 | 54.9 | ▲ |
| Core PCE Index (YoY) | 1.4% | 1.6% | ▼ |
| Real GDP (QoQ Annualized) | 3.0% | 1.2% | ▲ |

| INDEX | LEVEL | WEEK | YTD | 12 MO |
|---|---|---|---|---|
| DJ Industrial Average | 21987.56 | 0.80% | 11.26% | 19.37% |
| NASDAQ | 6435.33 | 2.71% | 19.55% | 23.11% |
| S&P 500 Large Cap | 2476.55 | 1.37% | 10.62% | 14.08% |
| MSCI EAFE | 1930.82 | 0.16% | 14.66% | 13.95% |
| Barclays Aggregate US | | 0.25% | 3.63% | 0.51% |

| KEY BOND RATES | WEEK | 1MO AGO | 1YR AGO |
|---|---|---|---|
| 3-Month T-Bill | 1.00% | 1.07% | 0.32% |
| 10-Year Treasury | 2.16% | 2.25% | 1.57% |

| REPORTS DUE NEXT WEEK | LATEST |
|---|---|
| ISM Non-Manufacturing | 53.9 |
| Initial Jobless Claims (Thousands) | 236 |
| Trade Balance | -43.64 |

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