FINANCIAL MARKET UPDATE
9/15/17

THE WEEK IN REVIEW

All three major U.S. equity averages made new all-time highs this week, as some of the risk-averse sentiment of recent weeks subsided. Homeowners, businesses and insurers in the Caribbean Sea, Florida and surrounding states assessed the damage from Hurricane Irma's destructive path. Early indications appear catastrophic damage may be limited. Renewed optimism for U.S. tax reform materialized on Wednesday based on comments from the Trump administration and Republican Congressional leaders promising to put forth a plan within weeks. The S&P 500 Index advanced 1.6% led by shares of banks and energy service and equipment stocks. Meanwhile the blue-chip Dow Jones Industrial Average surged 2.2% to close Friday at a record high of 22,268.34. Newly formed DowDuPont Inc., along with Intel Corp. and The Boeing Co. were three of the largest contributors to the Dow's weekly advance. In a sign of lower demand for "safe haven" assets, U.S. government bond prices fell and yields on the ten-year U.S. Treasury note advanced 0.15% to close the week at 2.20%.

On the economic front this week, the U.S. Labor Department provided investors and policymakers with an update on the August inflation picture. Wholesale producer prices ticked up in August, spurred by a nearly 10% increase in the cost of gasoline in the wake of hurricanes Irma and Harvey. Yet, underlying inflation remains muted, according to the Producer Price Index. Excluding the volatile components of food, energy and trade services, core PPI rose 1.9% relative to August of last year.

Headline consumer prices also rose slightly in August, driven by the largest increase in rents since 2005 and offset somewhat by a significant slowdown in Medicare costs. Overall medical care costs have risen just 1.9% over the past year. The core Consumer Price Index (CPI), which also strips out food and energy, climbed 1.7% over the twelve-month period ending in August. With annual inflation remaining below the Federal Reserve's 2.0% stated target, a growing number of analysts are anticipating the central bank may not hike its federal funds rate again in 2017. Despite improving growth in the second quarter and seemingly full employment, the Fed has remained cautious on rate hikes given muted inflation. The bond market's attention will now turn to the Fed's plans for shrinking its $4.2 trillion balance sheet of U.S. Treasury bonds and mortgage-backed securities.

On the demand side of the economy, August retail sales disappointed to end the summer and were revised downward for both June and July. Consumers spent less on cars, clothing and electronic devices relative to a month ago. While sales only fell 0.2% in August, it was the largest decline in six months. The August sales dip was partially due to the outsized weight of U.S. auto sales (about one fifth) in the number, as auto dealer sales sank 1.6%. Excluding autos, retail sales picked up 0.2%, although that was mostly due to gas prices, which is a headwind for consumers.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Consumer Price Index (YoY)	1.9%	1.9%	-
Core Consumer Price Index (YoY)	1.7%	1.7%	-
Producer Price Index (YoY)	2.4%	2.4%	-
Retail Sales (MoM)	-0.2%	0.0%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	22268.34	2.16%	12.68%	22.27%
NASDAQ	6448.47	1.39%	19.79%	22.84%
S&P 500 Large Cap	2500.23	1.58%	11.68%	16.44%
MSCI EAFE	1959.03	0.28%	16.33%	16.88%
Barclays Aggregate US		-0.50%	3.40%	0.90%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.02%	1.02%	0.28%
10-Year Treasury	2.20%	2.27%	1.69%

REPORTS DUE NEXT WEEK	LATEST
Building Permits (Millions Annualized)	1.23
Existing Home Sales (Millions Annualized)	5.44
Housing Starts (Millions Annualized)	1.16

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