Citizens TRUST AND INVESTMENT CORPORATION

FINANCIAL MARKET UPDATE
12/15/17

THE WEEK IN REVIEW

Domestic investors focused this week on the Federal Reserve's meeting and developments with the Republican tax bill. Republicans moved closer to reconciling tax bills from the Senate and House of Representatives after making last-minute changes including increasing the child tax credit to satisfy a concern raised by Senator Marco Rubio. Final votes in both congressional chambers are expected next week. Republicans are eager for a vote this year before Democrat Doug Jones of Alabama is sworn into the Senate early next year. Jones' win over Republican Roy Moore was considered an upset since Alabama has voted heavily Republican the last several years. His win will reduce the Republicans' Senate majority to 51-49 from 52-48. Tax legislation passage is still uncertain and the outcome will not be known until the final votes are cast.

As expected, the Fed raised short-term interest rates for the third time this year and the fifth time since the recession. Two Fed officials voted against raising rates, citing weak inflation. Fed officials forecasted three more rate increases next year and raised their 2018 economic growth projection to 2.5% from 2.1%. Tax policy change was cited as a factor for their stronger growth projection. Treasury yields remain tight, as the ten-year remains in its narrowest range since 1965. Low U.S. rate volatility has been driven by a low dispersion of economic activity and high predictability of Fed monetary policy given forward guidance. The Fed also released their Summary of Economic Projections, or SEP. The report projects an unemployment rate of 3.9% at the end of 2018, below the current level of 4.1%. This estimate came in below their long-run estimate of unemployment at 4.6%. New York Fed President William Dudley noted, "A particular risk of late and fast is that the unemployment rate could significantly undershoot the level consistent with price stability." Some maintain reservations that the Fed will have to employ more restrictive monetary policy in order to curb inflation caused be low unemployment.

The Consumer Price Index (CPI) rose 2.2% year over year in November. A 9.5% jump in energy prices provided a superficial boost to the headline CPI number. Core CPI, which excludes the volatile energy and food components, remained below the Fed's 2.0% inflation target with a 1.7% increase. The Fed's preferred inflation metric, the Personal Consumption Expenditures index, also remains below 2.0%.

Consumer spending appeared strong as shoppers prepared for the holiday shopping season with the release of the retail sales report this week. Retail sales increased 0.8% in November, far above the 0.3% increase expected. Auto sales were the one weak spot for the report, down 0.2%. Excluding auto sales total retail sales rose a strong 1% over the prior month.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Consumer Price Index (YoY)	2.2%	1.9%	▲
Core Consumer Price Index (YoY)	1.7%	1.7%	-
Retail Sales (MoM)	0.8%	-0.1%	▲
JOLTS (Millions)	5.99	6.14	▼
Producer Price Index (YoY)	3.1%	2.4%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	24651.74	1.33%	24.74%	24.18%
NASDAQ	6936.58	1.41%	28.86%	27.12%
S&P 500 Large Cap	2675.81	0.92%	19.52%	18.29%
MSCI EAFE	2016.52	0.56%	19.75%	21.16%
Barclays Aggregate US		0.31%	3.66%	4.71%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.31%	1.24%	0.50%
10-Year Treasury	2.35%	2.32%	2.60%

REPORTS DUE NEXT WEEK	LATEST
Housing Starts (Millions Annualized)	1.29
Existing Home Sales (Millions Annualized)	5.48
GDP (Annualized)	3.3%
Personal Spending	0.3%
Core PCE Index (YoY)	1.4%

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