

THE WEEK IN REVIEW

All three major U.S. stock indexes touched record highs this week, as corporate earnings season kicked off Friday. The S&P 500 index rose 1.6% for the week, while the NASDAQ gained 1.7%. Yields on the benchmark ten year Treasury bond climbed 0.08% to 2.55%, while U.S. crude oil prices advanced 4.8%. Earnings forecasts remain upbeat heading into the fourth quarter as investors look to digest the impacts from the recent tax reform.

U.S. retail sales rose 0.4% in December, and November sales were revised to an increase of 0.9% compared to the previously reported 0.8%. Retail sales in December rose 5.4% from a year ago, driven by building materials which advanced 1.2%. For all of 2017, retail sales rose 4.2% compared to 3.2% in 2016. Additionally, the core retail sales number, which excludes automobiles, gasoline, building material and food services, increased 0.3% last month. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, rose at a 2.2% annualized rate in the third quarter. The increase in retail sales and the revisions to the already strong November data solidified expectations of an acceleration in fourth quarter consumer spending. Retail stocks continued to rise this week after several firms reported strong sales during the holiday season.

The Consumer Price Index (CPI) was in line with the consensus estimate, rising 2.1% year over year in the month of December. The headline inflation figure was bolstered by increasing housing and medical costs that together make up more than half of the CPI. The housing sector has shown broad signs of strength, reflected by both housing costs and owners' equivalent rent both increasing 0.3% for December. The increase in medical costs was primarily driven by hikes in prescription drug prices which are up 1.0% year over year. Energy prices fell 1.2% in the month while food prices remained nearly flat, up 0.1%, muting the positive effects of housing and medical care costs. Core CPI, which excludes the volatile energy and food components, remained shy of the Fed's 2.0% inflation target, increasing 1.8% in December compared to the same period a year ago.

The labor market remains on solid footing as job openings reported in the JOLTS report remain high in absolute terms despite decreasing 0.8% month over month to 5.879 million. The prior figure for the month of November was revised downward from 5.996 million to 5.925 million. A slight decrease in job openings coupled with a 17-year low employment rate of 4.1% point to a labor market running near full capacity. The closely monitored quits rate remained steady at 2.2%, pointing to general contentedness among workers amid a backdrop of flat wages and robust job openings. Initial jobless claims came in 16,000 above the consensus estimate at 261,000 for the week ended January 6. Initial claims, when adjusted for significant short-term noise from the hurricanes in September and October figures, largely have remained flat throughout 2017.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Retail Sales (MoM)	0.4%	2.0%	▼
Consumer Price Index (YoY)	2.1%	2.2%	▼
Producer Price Index (YoY)	2.6%	2.6%	-
NFIB Small Business Optimism	104.9	103.0	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25803.19	2.01%	4.39%	29.72%
NASDAQ	7261.06	1.74%	5.18%	30.89%
S&P 500 Large Cap	2786.24	1.57%	4.21%	22.72%
MSCI EAFE	2113.12	0.58%	3.04%	22.70%
Barclays Aggregate US		-0.15%	-0.47%	2.55%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.44%	1.33%	0.51%
10-Year Treasury	2.55%	2.40%	2.36%

REPORTS DUE NEXT WEEK	LATEST
Housing Starts (Millions Annualized)	1.297
Industrial Production (M/M)	0.24%
U. of Mich. Consumer Sentiment	95.9

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

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