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WEEK IN REVIEW US GROWTH'S UPSIDE SURPRISE

Review of the week ended April 27, 2018

- **Q1 US GDP expands at pace of 2.3%**
- **Yield on 10-year Treasury note at four-year high**
- **Leaders of North and South Korea meet**
- **US delegation heading to China to talk trade**

As of noon on Friday, Global equities showed little change, having recovered ground losses at midweek. The yield on the US 10-year Treasury note raised three basis points from last Friday, to 2.96%, having topped 3% on Wednesday. Oil prices stayed roughly the same, as did volatility, coming in at 16.5, as measured by the Chicago Board Options Exchange Volatility Index (VIX).

The Dow Jones Industrial Average fell 11.15 points, or less than 0.1%, to 24,311.19. The S&P 500 index closed up 2.97 points to 2,670.91, a gain 0.1%. The Nasdaq Composite Index inched up by 1.12 point to 7,119.80, virtually unchanged.

For the week, the Dow fell 0.6% and the Nasdaq lost 0.4%. The S&P closed down a mere 0.01%, however, that was enough for all three to post their first weekly decline of the past three.

US economy grew faster, exceeds first quarter expectations

For a number of years, first quarter readings of economic growth in the US have fallen short of expectations. This year is an exception, as the first look at Q1 growth beat expectations, coming in at a 2.3% pace versus forecasts of 2%. The data shows a weak consumption while investment and exporters has picked up the slack.

US benchmark yields dallies with 3%

Yields on 10-year US Treasury notes moved above 3% at midweek, the first time that threshold was breached in four years. The move came despite some moderate weakness in equities and a soft reading from purchasing managers indices outside the US, where purchasing manager's indexes remained rock-solid. Inflation measures have been edging higher in the United States in recent

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months, in contrast to much of the developed world, where price pressures have remained calm. The combination of solid US economic growth relative to the rest of the developed world and rising interest rates have given the dollar a boost in recent sessions.



IKorean leaders hold historic meeting

North Korean leader Kim Jong Un met his South Korean counterpart Moon Jae-in on the south side of the demilitarized zone that separates their countries. This marks the first time the North Korean Leader had crossed the border. The two sides agreed to begin work aimed at adopting a peace treaty that would officially end the Korean War. Hostilities ceased on the Korean peninsula in 1953, when a truce was set. Both sides said they shared the goal of a nuclear-free Korean Peninsula. The summit comes in advance of a meeting between Kim and US president Donald Trump set to take place in late May or early June.

Trump sending representatives to China for trade talks

In an effort to mend a growing trade rift, President Trump announced he was sending a high-level delegation to China next week to hold talks. The delegation will include Treasury secretary Steven Mnuchin and US trade representative Robert Lighthizer, as well as Trump advisors Lawrence Kudlow and Peter Navarro.

Macron sees the conclusion of Iran nuclear deal

French president Emmanuel Macron, in Washington this week for a state visit, said he sees President Trump putting an end to the Iran nuclear deal negotiated by the Obama administration. Macron has advocated replacing the existing agreement with one that not only limits Iran's ballistic missile program, but also puts to an end to any Iranian nuclear ambitions for the long-term, as well as its ballistic missile program. Trump must recertify the existing deal every six months, and it is believed that he is unlikely to do so this time around. May 12th is the due-date for the next recertification. German chancellor Angela Merkel arrives in Washington today for talks. Iran and trade are said to top her agenda.

UK rate less likely to climb

The odds of a rate hike from the Bank of England at its May meeting have fallen to just 20% after weak Q1 GDP data were released. The British economy expanded just 0.1% in the first quarter, the weakest quarterly

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showing since 2012. Severe winter weather received the bulk of the blame for the economy's poor performance.

Earnings remain healthy but some fear peak

With 53% of the constituents of the S&P 500 Index having reported, blended earnings are seen up 23.2% versus the same quarter a year ago. Revenues are seen advancing 8.35% this quarter compared with a year ago. Some investors now fear that the first quarter will be the peak earnings quarter of the cycle, given some one-off impacts from US tax reform and a modest slowdown in global economic growth.

Major Stock Moves

Amazon shares climbed 3.6% a day after the e-commerce giant reported a quarterly profit that more than doubled, and as it announced a 20% increase in Prime subscription prices. While Amazon hit an all-time intraday record of \$1,638.10 in early trading, it closed off that high and below its closing record at \$1,598.39.

Microsoft Corp. rose 1.7%, briefly touching its own intraday high at \$97.90, after it released better-than-expected earnings and strong guidance. On the downside, Intel Corp. INTC, -0.09% fell 0.6% even as quarterly results and outlook beat Wall Street forecasts late

Thursday.

Intel was the latest notable stock to fall despite topping analyst forecasts, but Microsoft also ended below its intraday peak. Microsoft had risen as much as 3.9% while Intel rose as much as 5.2%. Both stocks are Dow components.

So far this season, about 80% S&P 500 companies that have reported beat forecasts, but the better-than-expected results have often failed to lift individual share prices.

Exxon Mobil Corp. fell 3.8% after the Dow component reported first-quarter earnings that missed expectations, though revenue came in ahead of analyst forecasts. Chevron Corp. rose 1.9% after posting stronger-than-expected earnings, but revenue that failed to exceed forecasts. The energy sector fell 1.2%, by far the weakest performer among the S&P 500's 11.

Expedia Group Inc. jumped 8.2% after the travel site late Thursday posted better-than-expected bookings.

Starbucks Corp. slipped 1.7% after the coffee giant late Thursday reported mixed results for its fiscal second quarter.

Colgate-Palmolive Co. ended flat after the consumer goods giant reported a first-quarter profit beat and revenue miss early Friday.





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THE WEEK AHEAD

Date	Country/Area	Release/Event
Mon, Apr 30	China	Purchasing managers' index
Mon, Apr 30	United States	Personal consumption expenditures
Thu, Apr 30	<u>eurozone</u>	Consumer price index
Tue, May 1	US, Japan, UK	Manufacturing purchasing managers' indices
Wed, May 2	<u>eurozone</u>	Manufacturing PMI
Wed, May 2	<u>eurozone</u>	Gross domestic product
wed, May 2	US	Federal Open Market Committee meeting
Thu, May 3	US	Non-manufacturing PMI
Fri, May 4	US	Employment report



A CHEAT SHEET FOR SENDING YOUR KID TO COLLEGE

College marks a great milestone in a child's life. It may be the first time he or she will live away from home. Dropping off your child at college may be an experience loaded with emotions, so [here are a few tips for a smoother transition.](#)

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