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Market Month: February 2018

The Markets (as of market close February 28, 2018)

Despite some positive economic signs, rising consumer confidence, and favorable corporate earnings reports, February marked the end of the 10-month winning streak for the benchmark indexes listed here. Concerns over rising inflation and interest rates triggered a notable sell-off early in the month and pushed volatility to the forefront. Although the indexes listed here recovered much of their early February losses to close the month ahead of their 2017 closing values (with the exception of the Russell 2000), stocks did not maintain the pace set last year into January. New Fed chair Jerome Powell's bullish assessment of the economy last week pushed the yields on 10-year Treasuries to their highest rates in several years (bond yields rise as prices fall), giving investors more reason to believe multiple interest rate hikes are in the offing for 2018.

The month started slowly as the Dow dropped over 4.0%, while the Nasdaq, S&P 500, Russell 2000, and Global Dow each fell over 3.0%. Despite a partial recovery mid-month, it was not enough to push stocks past their January closing values. The Global Dow and the Dow each plummeted more than 4.0% month-over-month, followed by the Russell 2000 and the S&P 500. The Nasdaq lost almost 2.0%, yet remained far ahead of the remaining listed indexes year-to-date. Overall, February was the worst month for the large caps of the Dow and S&P 500 since January 2016.

By the close of trading on February 28, the price of crude oil (WTI) was \$61.55 per barrel, down from the January 31 price of \$64.77 per barrel. The national average retail regular gasoline price was \$2.548 per gallon on February 26, down from the January 29, 2017, selling price of \$2.607 but \$0.234 more than a year ago. The price of gold decreased by the end of February, closing at \$1,319.40 on the last trading day of the month, down from its price of \$1,348.50 on January 31, 2017.

Market/Index	2017 Close	Prior Month	As of February 28	Month Change	YTD Change
DJIA	24719.22	26149.39	25029.20	-4.28%	1.25%
NASDAQ	6903.39	7411.48	7273.01	-1.87%	5.35%
S&P 500	2673.61	2823.81	2713.83	-3.89%	1.50%
Russell 2000	1535.51	1574.98	1512.45	-3.97%	-1.50%
Global Dow	3085.41	3265.63	3122.28	-4.39%	1.19%
Fed. Funds	1.25%-1.50%	1.25%-1.50%	1.25%-1.50%	0 bps	0 bps
10-year Treasuries	2.41%	2.70%	2.86%	16 bps	45 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Month's Economic News

- **Employment:** Total employment rose by 200,000 in January following December's upwardly revised total of 160,000. Employment gains occurred in health care, construction, food services and drinking



Key Dates/Data Releases

3/1: *Personal income and outlays, PMI Manufacturing Index, ISM Manufacturing Index*

3/7: *International trade, productivity and costs*

3/9: *Employment situation*

3/12: *Treasury budget*

3/13: *Consumer Price Index*

3/14: *Producer Price Index, retail sales*

3/15: *Import and export prices*

3/16: *Housing starts, industrial production, JOLTS*

3/21: *Existing home sales, FOMC report*

3/23: *New home sales, durable goods orders*

3/28: *International trade in goods, GDP*

3/29: *Personal income and outlays*

places, and manufacturing. The unemployment rate remained at 4.1%. The number of unemployed persons marginally increased from 6.576 million to 6.684 million. The labor participation rate remained unchanged at 62.7%. The employment-population ratio was unchanged at 60.1% in January. The average workweek for all employees declined by 0.2 hour to 34.3 hours in January. Average hourly earnings increased by \$0.09 to \$26.74, following an \$0.11 gain in December. Over the year, average hourly earnings have risen \$0.75, or 2.9%.

- **FOMC/interest rates:** The Federal Open Market Committee did not meet in February. The next meeting, the first under new chair Jerome Powell, is scheduled for March 20-21.
- **GDP/budget:** The second estimate of the fourth-quarter gross domestic product showed expansion at an annual rate of 2.5%, according to the Bureau of Economic Analysis. The third-quarter GDP grew at an annualized rate of 3.2%. Consumer spending rose 3.8%, with notable increases in durable goods spending (13.8%). As to the government's budget, January's deficit surged to \$49.2 billion, compared to December's deficit of \$23.2 billion. The fiscal 2018 deficit (which began in October 2017) is \$175.718 billion — an increase of \$17.14 billion, or 9.6%, above the deficit over the same period last year.
- **Inflation/consumer spending:** Inflationary pressures continued to show upward momentum in January. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up 0.4% for January following a December gain of 0.1%. The core PCE price index (excluding energy and food) jumped ahead 0.3% in January. Personal (pre-tax) income increased 0.4% and disposable personal (after-tax) income climbed 0.9% over the prior month. Personal consumption expenditures (the value of the goods and services purchased by consumers) climbed 0.2% in January after jumping 0.4% the prior month.
- The Consumer Price Index, which rose 0.2% in December, climbed 0.5% in January. Over the last 12 months ended in January, consumer prices are up 2.1%, a mark that hits the Fed's 2.0% target for inflation. Core prices, which exclude food and energy, increased 0.3% in January, and are up 1.8% for the year.
- The Producer Price Index showed the prices companies receive for goods and services also jumped 0.4% in January following no gain in December. Year-over-year, producer prices have increased 2.7%. Prices less food and energy increased 0.4% for the month and are up 2.5% over the last 12 months.
- **Housing:** Home sales continued to recede during the winter. Total existing-home sales dropped 3.2% in January after falling 3.6% the prior month. Year-over-year, existing home sales are down 4.8%. The January median price for existing homes was \$240,500, which is 2.6% lower than the December 2017 price of \$246,800. What may help spur sales is continuing inventory expansion for existing homes, which rose 4.1% in January, representing a 3.4-month supply. The Census Bureau's latest report reveals sales of new single-family homes also fell in January, declining 7.8% following a 9.3% drop in December. The median sales price of new houses sold in January was \$323,000 (\$335,400 in December). The average sales price was \$382,700 (\$398,900 in December). There were 301,000 houses for sale at the end of January, which represents a supply of 6.1 months at the current sales rate.
- **Manufacturing:** Industrial production edged down a bit in January, decreasing 0.1% compared to a downward-revised 0.4% increase in December. Manufacturing output was unchanged in January for a second consecutive month; the index has increased 1.8% over the past 12 months. Capacity utilization for manufacturing was also unchanged in January, coming in at 76.2%, a rate that is 2.1 percentage points below its long-run average. New orders for manufactured durable goods fell 3.7% in January following a 2.6% revised December gain. For the year, new durable goods orders are up 8.9%.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap increased in January from December, rising from \$72.3 billion to \$74.4 billion. Exports of goods for January fell 2.2% following December's 2.5% gain. Imports of goods dropped 0.5% after rising 2.9% in December. Still, total imports (\$208.3 billion) far exceeded exports (\$133.9 billion). Prices for both imported and exported goods and services advanced in January. Import prices rose only 1.0% for the month, while export prices increased 0.8%. For the year, import prices climbed 3.6%, while export prices jumped 3.4%.
- **International markets:** The potential for rising inflation isn't just affecting U.S. stocks, but is being felt in other major world markets as well. The Stoxx Europe 600 Index dropped about 3.0% for February, as did the Nikkei 225 Index. While the European Central Bank has maintained its programs of quantitative easing, some hawkish officials are pushing for an end to the easing bias. China's manufacturing output slowed in February, dragging stocks down in the aftermath. Strengthening of the yuan has curtailed China's export growth, which also likely contributed to the manufacturing slowdown.
- **Consumer sentiment:** Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, increased significantly in February after a modest increase in January. The index increased to 130.8, up from 124.3 in January. According to the report, consumer expectations in the economy reached a height not seen since November 2000.

Eye on the Month Ahead

Market volatility is likely to continue into March, at least until the Federal Open Market Committee meets later in the month. If the Committee maintains interest rates at their current level in March, investor fears of rising inflation and interest rates may subside, which should boost stocks.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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