MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

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Paying Attention to the Bond Market

Recently we commented on the shape of the yield curve, and why investors should pay attention to it (*read blog here*). **Following an extended period of flattening, the yield curve steepened last week.** Contributing to higher yields on longer dated Treasuries was the release of June's US Federal Reserve meeting minutes. The Fed indicated that it anticipates reducing its U.S. Treasury bond and mortgage-backed security holdings before the year is out.

As of the May 2017 Federal Reserve quarterly report, the Fed held $4,470 billion which was accumulated in the aftermath of the financial crisis. **The Fed was upbeat regarding inflation being at 1.7% and expects inflation to continue to creep to the targeted 2% rate over the next year.** Members of the committee signaled continued support for further gradual increases to the Federal Funds rate.

The holiday-shortened featured some good economic news, which did not pass unnoticed by the bond market. Monday's ISM Manufacturing Index registered 57.8 for June, which exceeded expectations as 15 of 18 industries reported expansion. The ISM Non-Manufacturing Index reading was released Tuesday and was also ahead of expectations as the service sector 16 of 18 industries registering expansion. **Friday's Nonfarm payrolls came in well ahead of expectations (222,000 vs. 178,000) but the unemployment rate did tick higher as the labor force participation rate increased.**

If the strength in the economy continues to broaden out, we would expect the broader market to follow suit. Many sectors of the domestic stock market have lagged as the past couple of years have been dominated by outperformance in the large-cap tech space (think FAANG), to the detriment of most everything else. Perhaps the rest of the "market" is ready to play a little catch up in the later innings of this long-running bull market.

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