

## Broad Market Advances for a Fifth Straight Week

**October 16, 2017** – U.S. stocks edged slightly higher Friday, sending the S&P 500 to its fifth straight weekly gain, while the NASDAQ Composite finished the week at a new closing high. Trading was largely subdued as investors weighed increased consumer spending against mixed takeaways on the inflation front. September retail sales rose 1.6%, the largest monthly increase in 2 ½ years. The start of the third quarter earnings season was highlighted by mostly strong results from large cap banks, but investors displayed little excitement, with the financial sector actually posting a loss for the week. Healthcare stocks were also down last week after the White House announced that it is halting subsidy payments to health insurers under the 2010 Affordable Care Act. The move could increase losses for insurers and reduce payments to hospitals and other healthcare facilities. The U.S. dollar weakened and bond prices advanced for the week.

In key economic data, the National Federation of Independent Business reported its index of small business optimism fell to a 10-month low of 103.0 in September from 105.3 the month prior. The Producer Price Index rose 0.4%, in line with projections, and is up 2.6% on a year-over-year basis – the most since February 2012. The Consumer Price Index (CPI) rose 0.5%, missing estimates, but was above the 0.4% increase in August. The core CPI, which excludes volatile food and energy prices, rose just 0.1%, missing forecasts for twice that amount. Lastly, and quite appropriate to be reported on Friday the Thirteenth, the University of Michigan’s early reading of October consumer sentiment rose from 95.1 to 101.1, a 13-year high.

For the week, the S&P 500 rose 0.17%, the Dow Industrials gained 0.43% and the NASDAQ Composite increased by 0.24%. Small cap stocks snapped a three weekly stretch of gains, as the Russell 2000 Index posting a loss of 0.49% last week. Within the S&P 500, 6 of its 11 major sector groups posted gains last week, led by Real Estate (+1.81%), Consumer Staples (+1.51%) and Technology (+1.33%). Telecom (-4.64%), Financials (-0.86%) and Healthcare (-0.63%) declined the most. U.S. crude oil prices advanced 4.38% last week to \$51.45/barrel, while gold futures climbed 2.19% to end the week at \$1,304.57/oz. The U.S. Dollar Index declined 0.76% last week, ending at 93.091. Treasury prices rallied, sending the yield on 10-year Treasury notes down 8.6 basis points last week to 2.274%.

### What We’re Reading

**Fundamentals Still Strong, Yet Worry Remains** ↗

**Oilfield Near Kirkuk Halts Output** ↗

**China Market Influence Seen Rising** ↗

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### Week’s Economic Calendar

**Monday, Oct 16:** Empire State Manufacturing Survey;

**Tuesday, Oct 17:** Industrial Production, Import/Export Prices, Housing Market Index;

**Wednesday, Oct 18:** Mortgage Applications, Housing Starts, Beige Book;

**Thursday, Oct 19:** Jobless Claims, Philly Fed Business Outlook, Leading Indicators;

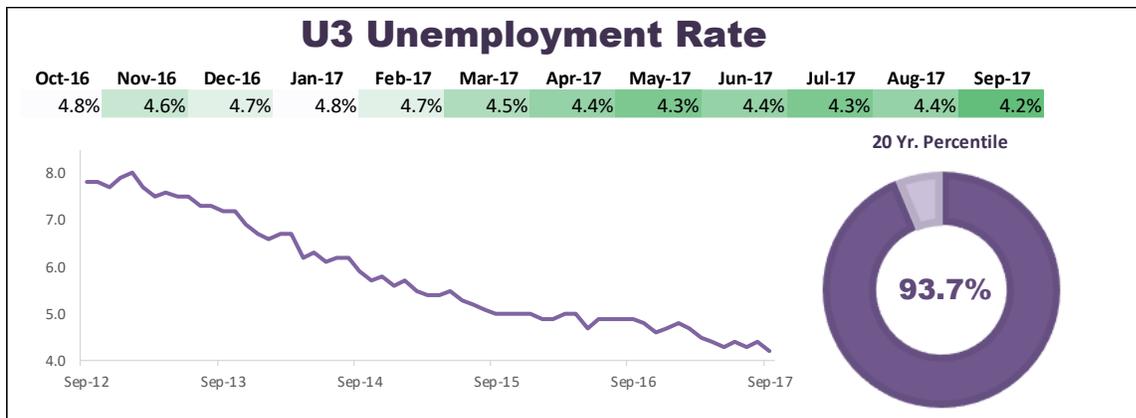
**Friday, Oct 20:** Existing Home Sales.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.43%	2.08%	6.12%	15.73%	26.39%	11.90%
S&P 500	0.17%	1.42%	4.82%	15.86%	22.22%	13.20%
NASDAQ Composite	0.24%	1.72%	5.56%	23.76%	28.17%	17.54%
Russell 3000	0.09%	1.37%	4.94%	15.47%	22.47%	13.20%
MSCI EAFE	1.63%	1.57%	5.82%	21.84%	24.43%	7.35%
MSCI Emerging Markets	2.08%	4.11%	8.74%	33.04%	29.30%	6.80%
Bonds						
Barclays Agg Bond	0.48%	0.33%	1.21%	3.48%	0.85%	2.48%
Barclays Municipal	0.39%	0.41%	1.38%	5.10%	2.21%	3.05%
Barclays US Corp High Yld	0.03%	0.19%	2.05%	7.20%	8.64%	5.98%
Commodities						
Bloomberg Commodity	2.37%	1.74%	5.13%	-1.18%	0.33%	-9.98%
S&P GSCI Crude Oil	4.80%	0.12%	11.93%	-3.70%	1.73%	-15.25%
S&P GSCI Gold	2.33%	1.54%	6.68%	13.28%	3.74%	1.98%

## Chart of the Week: There is Still Slack in Unemployment

Chart 1



Source: Tower Square Investment Management, U.S. Bureau of Labor Statistics

U.S. unemployment has been trending steadily downward for the past several years. The U3 Unemployment Rate, which measures the percentage of people without jobs who are actively seeking work, has stayed under 5% for the past year, reaching 4.2% as of the latest reading. As noted on the right of Chart 1, in the past 20 years the U3 rate has been higher 93.7% of the time, and a reading as low as the current one is typically achieved late in economic expansions. Some economists worry that competition for workers may cause inflation, if increased wages translate into higher prices.

In our view, there is still room for low unemployment to continue without a major uptick in inflation, as the recovering U.S. economy encourages displaced workers and retirees to come back into the labor force. The U6 Unemployment Rate, which includes discouraged workers, has steadily declined to 8.3% from 9.7% a year ago, while the percentage of population employed in the workforce has grown to 60.4% from 59.8% last year. Both these measures suggest there is still slack in unemployment, and inflation increases are not imminent.

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## Glossary

The **Barclays U.S. Treasury: U.S. TIPS Index** includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

The **Bloomberg Barclays US Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly

The **Bloomberg Barclays U.S. Corporate (Investment Grade) Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-US private-sector industrial, utility and financial issuers. Certificates of deposit are also included. Launched in July 1973, securities included must be rated investment grade (Baa3/BBB-/BBB- or higher). Eligible senior and subordinated corporate securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 10.75 years. The index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly

The **Bloomberg U.S. Treasury Floating Rate Bond Index** is a rules-based, market value-weighted index engineered to measure the performance of floating rate U.S. Treasury bonds. The index inception date is January 31, 2014—the first month-end following the U.S. Treasury's issuance of a floating rate bond. Historical performance and characteristics are available from January 31, 2014, when floating rate notes were offered and first traded, the first new Treasury security since the introduction of Treasury-Inflation-Protected Securities (TIPS) in 1997.

The **Bloomberg Barclays US Convertible Bond > \$500MM Index** is designed to represent the market of US convertible securities, such as convertible bonds, with outstanding issue sizes greater than \$500 million.

The **Bloomberg Commodity Index** is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index;

and no group can represent more than 33% of the index. However, between rebalancings, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

The **MSCI EAFE Index** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index

The **NASDAQ-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

**West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDY or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008