

Markets Gain on Tax Bill Prospects

December 4, 2017 – U.S. stocks finished lower last Friday; the S&P 500 and Dow Industrials opened on a high note, but then soured as political developments overshadowed positive tax news. Investors were worried that former National Security Advisor Michael Flynn’s admission to lying to the FBI regarding contacts with Russian officials may destabilize the administration and increase regulatory uncertainty. Meanwhile, Republican leaders in the U.S. Senate announced that, after a day of deliberations, they had the votes needed to pass their version of a tax reform. This, in turn, trimmed some of the day’s earlier losses and, overall, the week ended with substantial equity gains fueled by the increased likelihood of a corporate rate cut. Prior to this, the major U.S. equity indices closed at new record highs on Thursday. Internationally, the STOXX Europe 600 Index lost ground on Friday and ended the week in the red, the Shanghai Composite and Hong Kong’s Hang Seng indexes also were trending lower later in the week. Japan’s Nikkei broke the trend, rising on Friday and for the week.

In key economic data released last week, single-family home sales came in better than expected in October, adding 685,000 versus the median estimate of 620,000 new homes. Home sales are the highest since October of 2007. The S&P CoreLogic Case-Shiller 20-City Housing Price Index registered a 6.2% annual increase in September, following a 5.8% annual gain in August. Home prices increased at their fastest rate since July 2014. Consumer confidence increased for the fifth consecutive month and is now at its highest level since November 2000. Third quarter GDP was revised upward to show growth rose 3.3% from 3%. The increase was in line with expectations and is the fastest pace of quarterly growth in three years. Jobless claims came in under forecasts and layoffs remain at 45-year lows, as unemployment applications have subsided after a mini-surge in the early fall following severe hurricanes.

For the week, the S&P 500 added 1.60% and the Dow Industrials rallied by 3.00%, while the NASDAQ Composite lost -0.39%. Small caps in the Russell 2000 Index lagged larger-cap stocks but still rose by 1.22%. Within the S&P 500, Telecom (6.71%), Financials (5.26%), and Industrials (3.01%) went up the most, while Information Technology (-2.00%) and Real Estate (-0.45%) lost ground. After marking close to a two-year record during the Thanksgiving week, U.S. crude oil prices lost 1.00% last week to end at \$58.35/barrel. Gold futures declined by -0.74% to end the week at \$1,280.55/oz. The U.S. Dollar Index was practically flat, up 0.12%, ending the week at 92.89, while Treasury prices retreated, sending the yield on 10-year Treasury bonds up to 2.364%.

What We’re Reading

[Reconciling the Tax Bill ↗](#)

[No Brexit Breakthrough ↗](#)

[Mortgage Fraud in China ↗](#)

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Week’s Economic Calendar

Monday, Dec 4: Factory orders;

Tuesday, Dec 5: Trade deficit, ISM nonmanufacturing index;

Wednesday, Dec 6: ADP employment, Productivity, Unit labor costs;

Thursday, Dec 7: Weekly Jobless Claims, Consumer credit;

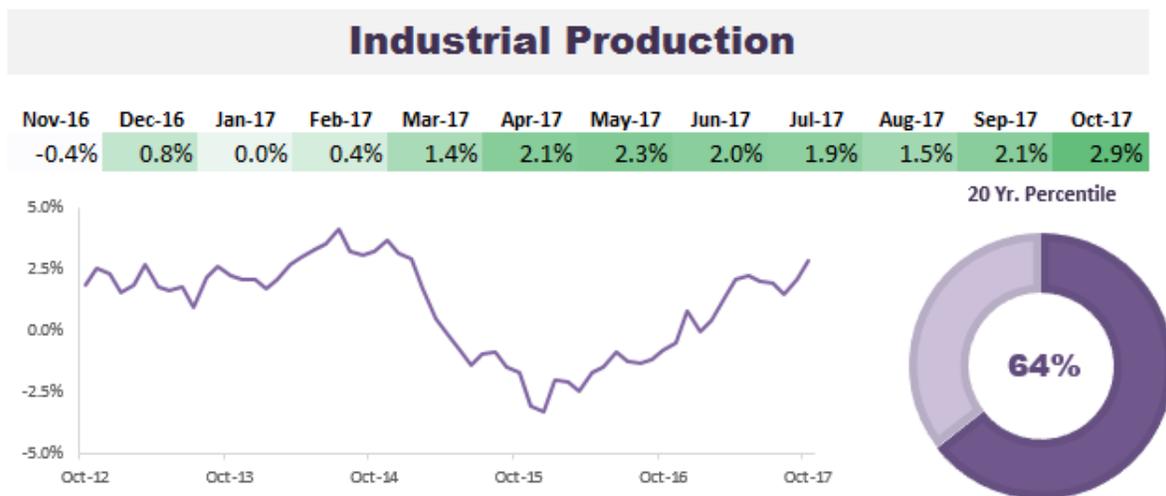
Friday, Dec 8: Nonfarm payrolls, Unemployment, Average Hourly Earnings, Consumer Sentiment, Wholesale Inventories.

Market Watch

| Stocks | 1-Week | MTD | 3-Month | YTD | 1-Year | 3-Year |
|---------------------------|--------|--------|---------|--------|--------|--------|
| Dow Jones Industrial Avg. | 2.86% | -0.17% | 10.21% | 22.61% | 26.28% | 10.87% |
| S&P 500 | 1.60% | -0.20% | 7.21% | 20.25% | 23.07% | 11.08% |
| NASDAQ Composite | -0.58% | -0.38% | 6.69% | 28.53% | 31.87% | 14.48% |
| Russell 3000 | 1.50% | -0.21% | 7.35% | 19.68% | 22.52% | 10.98% |
| MSCI EAFE | -0.94% | -0.81% | 3.87% | 22.06% | 26.15% | 5.78% |
| MSCI Emerging Markets | -3.31% | -0.43% | 2.51% | 31.95% | 32.95% | 6.69% |
| Bonds | | | | | | |
| Barclays Agg Bond | -0.03% | 0.29% | -0.08% | 3.36% | 3.91% | 2.25% |
| Barclays Municipal | -0.04% | 0.35% | -0.43% | 4.72% | 6.38% | 2.87% |
| Barclays US Corp High Yld | 0.13% | 0.015 | 1.01% | 7.19% | 9.18% | 5.97% |
| Commodities | | | | | | |
| Bloomberg Commodity | -0.57% | 0.91% | 2.05% | -0.35% | 0.38% | -8.63% |
| S&P GSCI Crude Oil | -1.00% | 1.67% | 23.41% | 8.64% | 14.31% | -5.43% |
| S&P GSCI Gold | -0.74% | 0.44% | -3.62% | 11.34% | 9.66% | 1.73% |

Chart of the Week: Industrial Production Continues to Improve

Chart 1



Source: Tower Square Investment Management, Board of Governors of the Federal Reserve System (US). Industrial Production figures listed are the year-over-year change.

Industrial Production and Capacity Utilization is measured monthly by the United States Federal Reserve and is based on hours worked by industrial-sector employees. It offers percentage changes from month to month and year to year, and a breakdown of production by industry grouping.

The most recent reading came in 2.9% higher on a year-over-year basis, continuing an improving trend which has taken hold since the beginning of the year. This level of growth is higher than we have observed 64% of the time for the past 20 years. On a month-to-month basis, production grew by 0.9%, but we should note that while this is a strong result, October results were boosted by recovering

activity after Septembers' hurricane season. Without the impact of hurricane recovery, activity would have improved by 0.3% for the month. In our view, while there may be a decline in the short-term production trend next month, the data still indicates a solid and improving level of activity.

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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 **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.

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 **Nikkei 225 Stock Average** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The constituents are changed at the beginning of October every year based on an annual review by Nikkei, Inc. The Nikkei average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225.

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.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

*The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*

***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 USDX 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*