

June 2018

EQUITY MARKETS

After solid gains in May, the S&P 500 Index and most major U.S. equity indices rose modestly in June. Despite some key U.S. equity indices hitting new all-time highs in the first part of the month, as trade tensions worsened in the second half of June, equity markets gave back some gains. Notwithstanding the volatility being seen in equities, the S&P 500 gained 3.43% for the second quarter and is now 2.65% on a year-to-date basis. The Russell 2000 Index, a measure of small capitalization stocks, hit a new all-time during the month, as did the NASDAQ Composite Index. International equities struggled in June, driven by strength in the U.S. dollar. While most major U.S. equity indices enjoyed gains overall for the second quarter of 2018, international equities declined. In addition to U.S. dollar strength, building trade tensions between the U.S. and much of the rest of the world has hampered international stock performance. Most major U.S. stock indices were positive in June with a slight performance edge of growth stocks over value stocks. International stocks struggled in June with both developed international and emerging market equities declining for the month.

FIXED INCOME MARKETS

10-year U.S. Treasury yields rose during the first half of the month only to decline in the second half. By the end of the month, the closing yield of 2.85% was up modestly from May's close of 2.83%. Returns in fixed income were mixed for the month with the Bloomberg Barclays U.S. Aggregate Bond Index posting a decline for the month driven by the negative return of investment grade corporate bonds offsetting the slightly positive returns generated by U.S. Treasuries. High-yield bonds posted positive returns in June and are now in positive territory on a year-to-date basis. Municipals also recorded positive returns in June, but like the Bloomberg Barclays U.S. Aggregate Bond Index and U.S. Treasuries, remain in negative territory on a year-to-date basis.

ECONOMIC DATA

Economic data picked up in May and expectations built for a potentially strong second quarter of U.S. economic growth with the Atlanta Fed GDPNow forecast at 3.8%, while the New York Nowcast is showing a more modest expansion of 2.8%. The ISM Manufacturing Index and the ISM Non-Manufacturing Index were both above expectations and higher than April's levels. Both readings remaining comfortably above the 50 mark, the dividing line between expansion and contraction for these indices. Also, May non-farm payroll additions were well above expectations and topped the 220,000 level, while the unemployment rate declined improving to 3.8%. Retail sales showed strong monthly growth in May as well. The final reading of first quarter 2018 GDP was revised modestly lower to 2.0%, which was below expectations and the prior mark of 2.2% growth, as consumer spending was lower than previously estimated. The Federal Open Market Committee met in June and, as expected, raised policy rates for the second time during 2018. The expectation is the Fed will raise rates again this year with some debate whether it will be one or two more times. Trade issues intensified during the month and whether this is part of ongoing negotiations or the beginning of an actual trade conflict could be pivotal to the outlook for economic growth in the months ahead.

Event	Period	Estimate	Actual	Prior	Revised
Nonfarm Payroll	May	190,000	223,000	164,000	159,000
Unemployment	May	3.9%	3.8%	3.9%	
ISM Manufacturing	May	58.2	58.7	57.3	
ISM Non-Manufacturing	May	57.7	58.6	56.8	
Retail Sales ex Auto & Gas	May	0.4%	0.8%	0.3%	
Average Hourly Earnings YoY	May	2.6%	2.7%	2.6%	
JOLTS Job Openings	Apr	6,350,000	6,698,000	6,550,000	6,633,000
PPI MOM	May	0.3%	0.5%	0.1%	
PPI MOM ex Food & Energy	May	0.2%	0.3%	0.2%	
PPI YOY	May	2.8%	3.1%	2.6%	
PPI YOY ex Food & Energy	May	2.3%	2.4%	2.3%	

CPI MOM	May	0.2%	0.2%	0.2%	
CPI MOM ex Food & Energy	May	0.2%	0.2%	0.1%	
CPI YOY	May	2.8%	2.8%	2.5%	
CPI YOY ex Food & Energy	May	2.2%	2.2%	2.1%	
Industrial Production	May	0.2%	-0.1%	0.7%	0.9%
Housing Starts	May	1,311,000	1,350,000	1,287,000	1,286,000
Building Permits	May	1,350,000	1,301,000	1,352,000	1,364,000
New Home Sales	May	667,000	689,000	662,000	646,000
Existing Home Sales	May	5,520,000	5,430,000	5,460,000	5,450,000
Leading Index	May	0.4%	0.2%	0.4%	
Durable Goods Orders	May (P)	-1.0%	-0.6%	-1.6%	-1.0%
S&P CoreLogic CS 20-City YOY	Apr	6.80%	6.56%	6.79%	6.73%
Personal Income	May	0.4%	0.4%	0.3%	0.2%
Personal Spending	May	0.4%	0.2%	0.6%	0.5%
GDP Annualized QOQ	1Q (T)	2.2%	2.0%	2.2%	
Univ. of Mich. Sentiment	Jun (F)	99.0	98.2	99.3	

P = Preliminary, T = Third, F = Final,

Source: Bloomberg

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