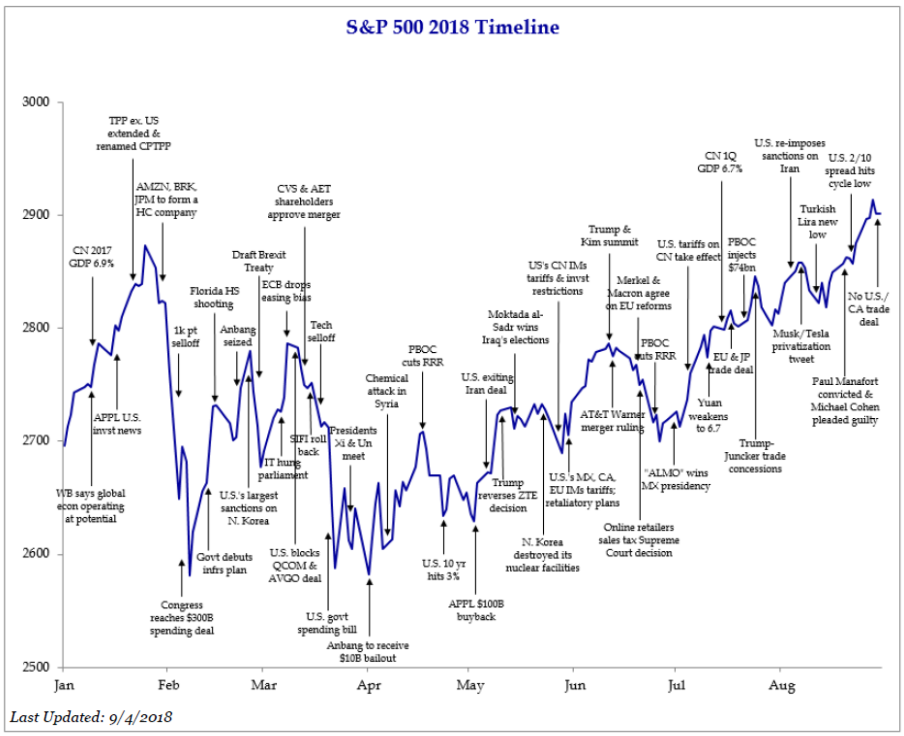
Weekly Market Recap
September 10, 2018

Last Week:

- The S&P 500 declined (-1%) during a week shortened by the Labor Day holiday
  - Technology and Consumer Discretionary were the largest detractors with FANG stocks contributing to the downside
  - Industrials and Consumer Staples were the leaders for the week
- The S&P 500 has climbed the "wall of worry" in 2018

U.S. MARKETS SURPASS PRIOR PEAK



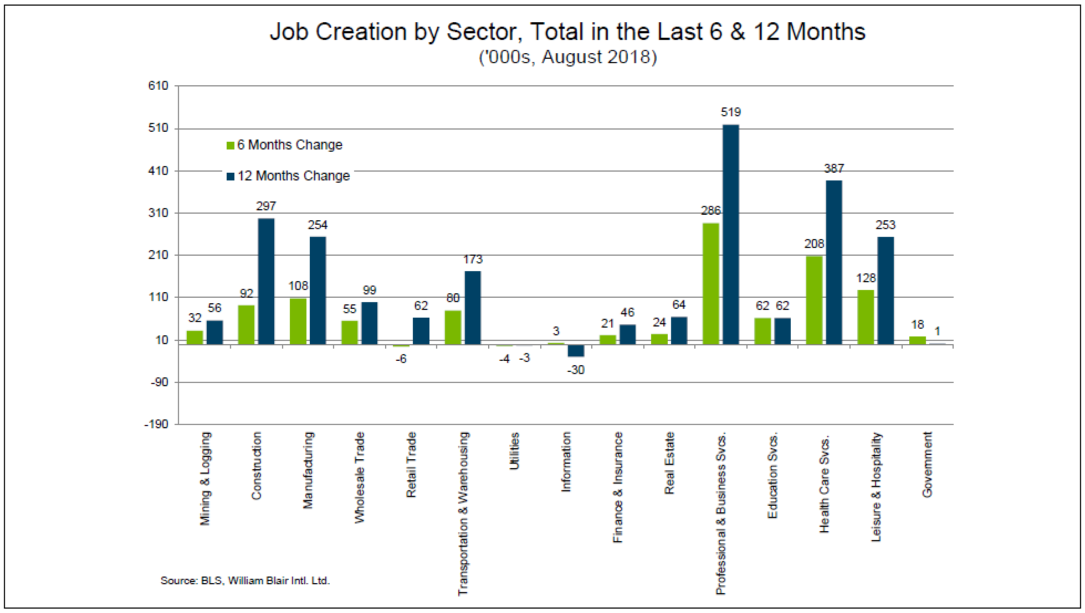
Source: Strategas

- The S&P SmallCap 600 and S&P MidCap 400 took a breather, down (-1.6%) and (-0.9%), respectively
- The Dow Jones Industrial Average was a relative outperformer, down (-0.2%) for the week
  - Home Depot and Coca-Cola buoyed the index, up +2.7%, and +2.6%, respectively
  - To the down side, tech stocks and energy weighed on the index, with Intel (-4.1%), **Microsoft** (-3.7%) and Chevron (-3.3%) down for the week
- Dow Transports bucked the trend for week, up +0.4% while Dow Utilities were also up +1.0%
- NASDAQ fell (-2.9%)
- The US Dollar Index barely moved, finishing at 95.30
- Crude oil declined modestly to finish at $67.75/barrel
- Gold fell to $1,197/troy ounce
- The 10-year Treasury popped to 2.94%

- The Stoxx Europe 600 declined (-2.2%) with markets across Europe challenged for the week
  - Frankfurt (-3.3%) a was case in point, while Paris fell (-2.9%) and London following suit (-2.1%) amid ongoing Brexit uncertainty
  - Sweden held elections over the weekend with the populist Sweden Democrats posting the largest gains
  - The UK poisoning case is being elevated to the UN Security Council
  - Mark Carney is set to stay as head of Bank of England through 2020
- Asia-Pacific markets were under pressure as well attributed to tariff concerns
  - Hong Kong fell (-3.3%), Tokyo was down (-2.4%) and Bombay fell (-0.8%)
  - China was not spared either with Shanghai (-0.8%) and Shenzhen (-1.7%) feeling the pain from trade concerns
- North Korea celebrates its 70th anniversary on Sunday with military parades amid much pomp and circumstance … China's President will not attend as originally rumored
  - The Koreas plan to have another summit meeting from 9/18-9/20
- Secretary of State Mike Pompeo and Defense Secretary Jim Mattis meet with leaders in India to strengthen diplomatic and military ties … Pompeo a day earlier met with leaders in Pakistan
- Smokey took the Bandit to the great raceway in the sky
- Facebook COO Sheryl Sandberg and Twitter CEO Jack Dorsey got grilled on social media's influence and whether government regulations are needed as they testified before the Senate Intelligence (an oxymoron?) Committee
- Canada and the US continued their negotiations regarding NAFTA in the wake of the US and Mexico agreeing to a new framework
- The VIX is showing signs of nervousness from all the trade banter, moving over the 15 level several times before settling in at 14.5 for the week

Source: Wolfe Securities

- August Payrolls were up 201,000 while unemployment remained at 3.9% … Average hourly earnings are up 2.9% year over year, a gradual increase over previous readings



Source: William Blair

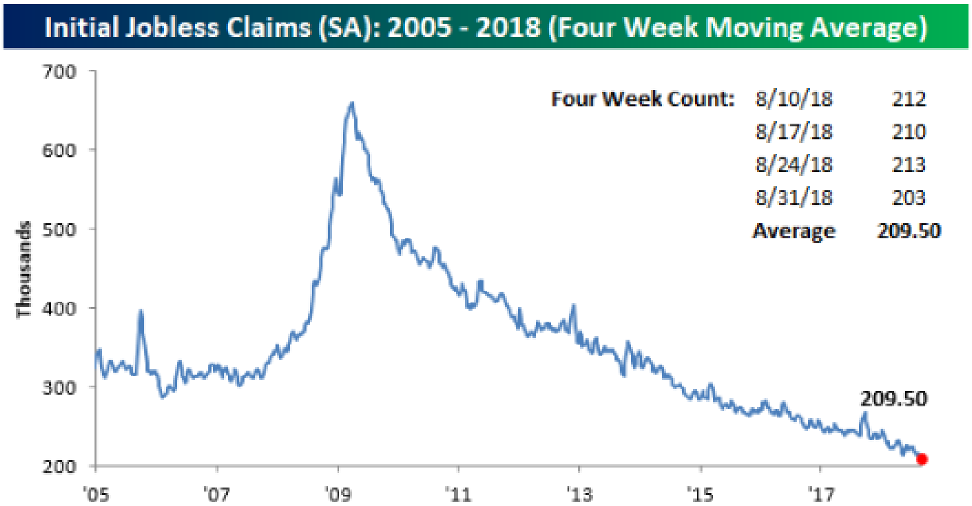
- The 2.9% increase in average hourly earnings likely provides the Federal Open Market Committee all the ground cover it needs to raise interest rates again later this month. Fed Funds futures call for a 95% chance of an interest rate hike in late September, but see only 1-2 more Fed Funds hikes over the ensuing year as the most likely course

Probability of a Fed Rate Change on (based on Fed Fund Futures / Bloomberg):

Meeting	Probability of Hike	Probability of Cut	1.75-2.00	2.00-2.25	2.25-2.50	2.50-2.75
09/26/2018	95.2%	0.0%	4.8%	95.2%	0.0%	0.0%
11/08/2018	95.3%	0.0%	4.7%	92.7%	2.6%	0.0%
12/19/2018	98.4%	0.0%	1.6%	35.2%	61.4%	1.7%
01/30/2019	98.5%	0.0%	1.5%	33.2%	59.8%	5.4%
03/20/2019	99.2%	0.0%	0.8%	17.1%	46.3%	33.0%
05/01/2019	99.3%	0.0%	0.7%	15.4%	43.3%	34.4%
06/19/2019	99.5%	0.0%	0.5%	10.7%	34.4%	37.2%
07/31/2019	99.6%	0.0%	0.4%	10.1%	33.0%	37.0%
09/18/2019	99.6%	0.0%	0.4%	8.4%	29.0%	36.3%

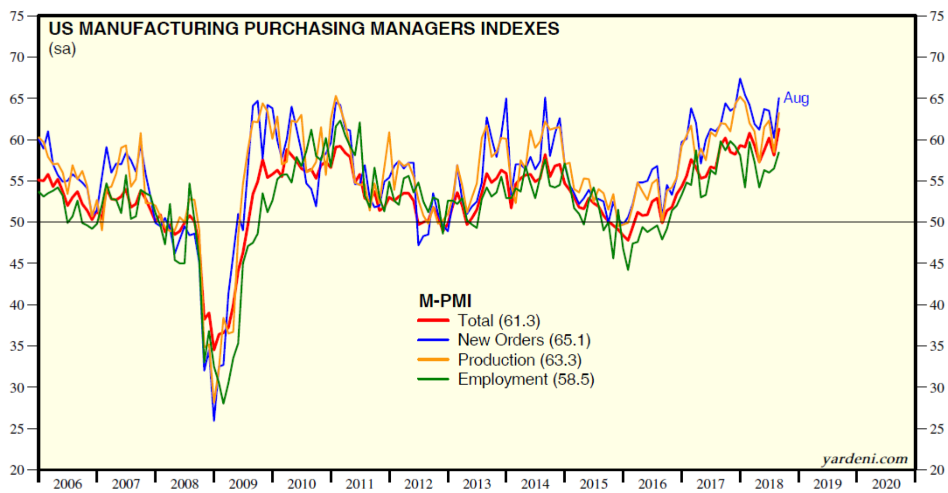
Source: Oppenheimer

- Yields in Japan have tripled over recent months and are very near 0.10% for 10 years
- The ADP jobs report showed an increase of 163,000
- Weekly Jobless Claims continue to plumb fresh lows, with the labor market seemingly tighter than it was even during the 2005-07 economic boom period



Source: Bespoke

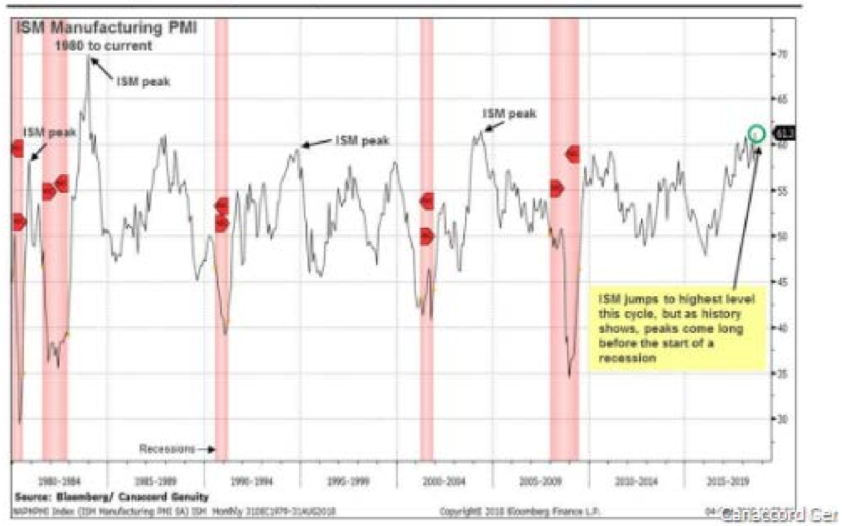
- The US trade deficit widened to $50.1 billion, in line with expectations
- The Manufacturing ISM rose to 61.3, with all numbers continuing to show strength



Source: Institute for Supply Management.

- Factory Orders for July fell -0.8%, with June revised a tick lower to a gain of 0.6% (vs +0.7% previously). The July data was a shade worse than the -0.6% consensus forecast
- Previous peaks in Manufacturing gauges have preceded recessions by many years

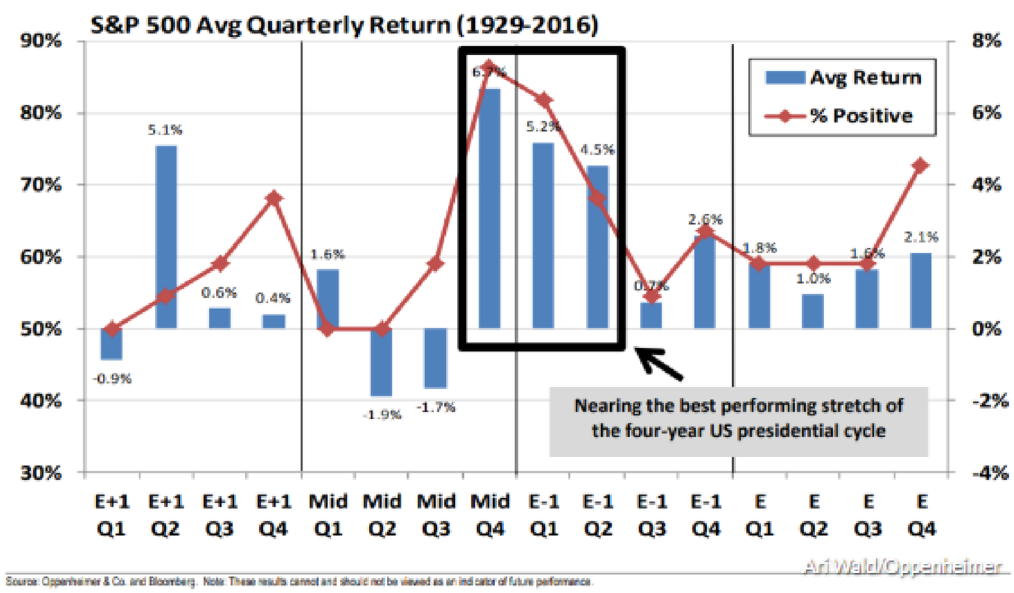
Figure 2: History shows the past few cycles have been even more dramatic



- *Barron's* cover story this week focused on central banks noting the U.S. Federal Reserve has reduced its balance sheet by $252 billion since October
- **Thermo Fisher Scientific** acquired Becton Dickinson's Advanced Bioprocessing business
- Transocean acquired Ocean Rig in a $32/share deal
- NXP Semiconductors acquired OmniPHY

This Week:

- US markets are poised to open higher
- European markets are rebounding from last week, led by London 2.2%
- Asian markets remain under pressure with Hong Kong (-1.3%) and Shanghai (1.5%) due to continued trade uncertainty
    - The Trump administration has stated another $267 billion worth of tariffs are ready to be added to the $200 billion previously put in place
- The Bank of England and the ECB announce interest rate decisions on Thursday … so does Turkey
- EU President Juncker delivers a State of the Union address on Wednesday in Europe
- Apple holds its annual product review on Thursday. In addition, Apple is stating proposed tariffs will hit a wide range of its product line
- Alibaba's CEO Jack Ma will be replaced by Daniel Zhang
- Unconfirmed: U.S. Trade Representative Lighthizer to meet with EU trade chief to continue talks on Monday
- Since 1926, the three calendar quarters including/after mid-term elections have generated the best market returns



Source: Oppenheimer

- Volatility is significantly above average in the autumn months

- In mergers this morning, SAIC is agreeing to buy Engility for $2.5 billion
- Earnings this week:
  - Thursday: Adobe and Kroger
- Economic reports:
  - Wednesday: The U.S. Federal Reserve releases its Beige Book
  - Thursday: Consumer Price Index
  - Friday: Retail Sales, University of Michigan Sentiment

As always, thanks very much for your interest and support.

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