

# Investment Weekly

October 2, 2017

## Economic Recap

Even as the tax debate begins in Washington and hurricane weakness filtered through economic reports, equities hit new highs. The final estimate of GDP growth put Q2 at a solid 3.1%. Growth in Q3 will reflect hurricane damage, but future growth should strengthen as devastated areas rebuild. Consumer spending rose a disappointing 0.1%, although the 0.2% rise in personal income provides potential for more spending. The modest decline in the Conference Board's Consumer Confidence Index also reveals little deterioration in consumer confidence. Overall durable goods orders rose 1.7%, but excluding transportation orders rose only 0.2%. New home sales also fell for a second month. Yet housing demand seems solid, as prices rose 5.8% in the broad Case-Shiller Index.

In contrast to previous weeks, international economies also had some disappointing reports. In Germany, retail sales declined by 0.4%, which was well below the expected 0.5% increase. French consumer spending also disappointed, falling by 0.3%, rather than rising by that amount. And Japanese retail sales fell short, rising 1.7% over the last year rather than growing by the expected 2.6%. U.K.'s GDP growth came close to meeting expectations, but grew only 1.5% y/y. And while Canada's economy grew 3.5% over the last year, there was no growth in July.

## Economic Calendar (U.S.)

Monday – PMI Manufacturing Index  
Wednesday – ADP Employment Report  
Thursday – Factory Orders & International Trade  
Friday – Employment Situation, Consumer Credit

## Economic Calendar (International)

Monday – EZ Unemployment, FR/DE PMI Mfg. Index  
Wednesday – GB CIPS/PMI Services Index  
Friday – CA Housing Starts & Labor Force Survey

## Interest Rates & Yields

Rate	Current	1 Mo. Ago	1 Yr. Ago
Effective Federal Funds Rate	1.16%	1.16%	0.40%
Target 90-day T-bill	1.00%	0.99%	0.24%
U.S. 2-yr Trsy Yield	1.48%	1.34%	0.76%
U.S. 10-yr Trsy Yield	2.33%	2.17%	1.59%
U.S. 30-yr Trsy Yield	2.86%	2.78%	2.32%
U.S. 5-yr Muni Yield	1.48%	1.26%	1.15%
Investment Grade Yield	3.55%	3.53%	3.30%
High Yield	5.39%	6.15%	6.34%

## Financial Market Recap

Markets ended near record highs last week as investors reacted positively to the GOP's latest tax reform proposal and news that Angela Merkel won her fourth term as Germany's chancellor. The positive news helped temper reaction to the latest escalation in tensions with North Korea. Ten out of eleven sectors of the S&P 500 posted gains for the week, with the energy, financials and information technology sectors showing relative strength, while the utilities, consumer staples and health care sectors lagged.

During the week, the GOP released its latest tax reform outline. Some of the most notable highlights of the plan include: cutting the corporate tax rate to 20% from 35%, doubling the standard deduction, and reducing the number of tax brackets to three (or possibly four) from seven. The individual tax rates would be set at 12%, 25%, and 35%, with a fourth option for the highest earners. Details on how the government would make up for the immediate loss in tax revenue were limited, although the topic will likely be an area of contention going forward as many conservatives are opposed to the idea of driving up the federal deficit, which would probably be necessary to fund the tax overhaul. Also during the week, Fed Chair Janet Yellen spoke at a NABE meeting in Cleveland, defending a gradual path of rate hikes despite continued uncertainty in the area of inflation.

For the week, the Dow Jones Industrial Average closed up 0.3%; the S&P 500 rose 0.7%; and the NASDAQ Composite gained 1.1%. Overseas, the S&P Europe index closed unchanged and the S&P Asia Pacific index closed down 0.4%. The yield on the 10-year U.S. Treasury note was at 2.33%, up 8 bps for the week.

## Index Returns

Index	WTD	MTD	YTD	1-Yr.
S&P 500 Large Cap	0.72%	2.06%	14.24%	18.60%
S&P 400 Mid Cap	1.60%	3.92%	9.40%	17.51%
S&P 600 Small Cap	3.38%	7.71%	8.90%	20.95%
S&P Developed Mkts ex-U.S.	0.00%	2.52%	20.23%	18.88%
S&P Emerging Markets	-1.89%	-0.57%	26.60%	21.92%
Bloomberg Commodity	-0.47%	-0.23%	-3.49%	-1.03%
Barclays U.S. Aggregate	-0.10%	-0.48%	3.14%	0.07%
Barclays Municipals	-0.32%	-0.51%	4.66%	0.87%
Barclays U.S. High Yield	0.30%	0.90%	7.00%	8.88%
HFRX Eq. Wgt. Hedge Funds	-0.02%	0.39%	3.69%	4.95%

All data as of market close: 09/29/2017

Source: Bloomberg

**Key Private Bank**



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