

Investment Weekly

October 23, 2017

Economic Recap

As the sweet spot of the economic cycle continues to buoy investor optimism, Congress raised hopes that a tax cut would finally be enacted. Economic reports also remained positive. Hurricane disruptions reduced industrial production in the third quarter, but September's 0.3% gain suggests industrial activity has begun to bounce back. Business sales also increased 0.7% for the month. The Fed's Beige Book report did highlight growing evidence of labor market tightness. That tightness was also underscored by the initial claims for unemployment insurance, which fell to levels last seen in the early 1970s. And yet the Consumer Price Index (CPI) data shows inflation remains well contained. Although energy prices helped drive the headline CPI up 0.5%, the core index rose only 0.1% (1.7% y/y).

Growth was also evident in most overseas economies. China's GDP rose 6.8% as industrial output increased 6.6% and retail sales gained 10.3%. China's CPI rose a mere 1.6% y/y. In Japan, exports rose 14.1% while imports increased 15.0%. In Russia, inflation-adjusted wages grew 2.6% y/y and retail sales increased 3.1%, although industrial production rose only 0.9%. Canada's economy showed signs of cooling slightly, with retail sales declining 0.3% and the CPI up just 1.6% y/y.

Economic Calendar (U.S.)

Tuesday – PMI Composite Flash
Wednesday – Durable Goods Orders, New Home Sales
Thursday – Jobless Claims, International Trade in Goods
Friday – GDP, Consumer Sentiment

Economic Calendar (International)

Tuesday – FR PMI Composite, EZ PMI Composite Flash
Wednesday – GB GDP, DE IFO Survey
Thursday – EZ ECB Announcement, JP CPI

Interest Rates & Yields

Rate	Current	1 Mo. Ago	1 Yr. Ago
Effective Federal Funds Rate	1.16%	1.16%	0.41%
Target 90-day T-bill	1.05%	0.99%	0.30%
U.S. 2-yr Trsy Yield	1.58%	1.43%	0.82%
U.S. 10-yr Trsy Yield	2.38%	2.25%	1.73%
U.S. 30-yr Trsy Yield	2.90%	2.78%	2.48%
U.S. 5-yr Muni Yield	1.46%	1.40%	1.35%
Investment Grade Yield	3.58%	3.50%	3.34%
High Yield	5.62%	5.36%	6.27%

Financial Market Recap

Markets ended near record highs last week as investors reacted positively to strong corporate earnings, solid economic data releases and rising expectations for tax reform. Eight out of eleven sectors of the S&P 500 posted gains for the week, with the financials, health care and utilities sectors showing relative strength, while the consumer staples, real estate and energy sectors lagged.

During the week, the Senate approved a \$4 trillion budget measure taking a crucial step toward passing a tax plan this year. Passing a budget unlocks reconciliation, which enables the GOP to pass a tax bill with a simple 51-vote majority in the Senate and removes the need for winning Democratic support. Republicans have not yet introduced a concrete tax bill, but the process of crafting the full plan will start once the House and Senate can pass a budget resolution.

Investors also looked to Washington as President Trump has reportedly completed interviews with all five of the candidates that he may be considering for the role of next head of the central bank. A decision could potentially be announced this week and reports are that the President is leaning toward Fed governor Jerome Powell or Stanford economist John Taylor for the position.

For the week, the Dow Jones Industrial Average closed up 2.0%; the S&P 500 rose 0.9%; and the NASDAQ Composite gained 0.4%. Overseas, the S&P Europe index closed down 0.8% and the S&P Asia Pacific index closed up 0.1%. The yield on the 10-year U.S. Treasury note was at 2.38%, up 11 bps for the week. The dollar index was up 0.7% for the week. Crude oil rose 0.4%, to \$51.96 a barrel. Gold traded down 1.7% at \$1,282.40/ounce.

Index Returns

Index	WTD	MTD	YTD	1-Yr.
S&P 500 Large Cap	0.88%	2.31%	16.88%	22.74%
S&P 400 Mid Cap	0.87%	2.19%	11.79%	21.92%
S&P 600 Small Cap	0.61%	1.13%	10.13%	25.78%
S&P Developed Mkts ex-U.S.	-0.40%	1.36%	21.86%	21.95%
S&P Emerging Markets	-0.65%	3.02%	30.42%	23.78%
Bloomberg Commodity	-0.71%	1.02%	-1.88%	-0.09%
Barclays U.S. Aggregate	-0.45%	-0.13%	3.01%	0.31%
Barclays Municipals	0.10%	0.51%	5.20%	2.41%
Barclays U.S. High Yield	0.31%	0.50%	7.53%	8.22%
HFRX Eq. Wgt. Hedge Funds	0.00%	0.12%	3.92%	5.09%

All data as of market close: 10/20/2017

Source: Bloomberg

Key Private Bank



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