

THE WEEK IN REVIEW

It was a volatile week for financial markets as investors returned from a long holiday weekend to find Italy in political chaos as euroskeptic parties gained traction and increased the prospect of the country challenging EU budget rules, if not outright exiting the common currency bloc. The S&P 500 Index fell more than one percent on Tuesday as the market digested the news from Europe, but as the week moved on the index recovered and closed the week with a slight gain. Perhaps more interesting, was the movement in U.S. Treasury yields as the yield on the ten-year note closed out Tuesday at 2.78%, after ending the prior week yielding 2.93%. Markets spent much of the rest of the week recovering from Tuesday's commotion, absorbing a plethora of U.S. economic data that was relatively positive overall. While the Fed's preferred measure of inflation remained subdued, labor market data reports painted a picture of a robust economy.

The U.S. economy continued to grow in the first quarter of 2018, albeit at a slower rate than in the previous few quarters. The Commerce Department's second estimate of U.S. GDP growth for the first quarter came in at a seasonally adjusted 2.2%, down 0.1% from the initial estimate. The downward revision from the advanced estimate reflects negative revisions to private inventory investment, residential fixed investment, and exports. A moderate upward revision in nonresidential fixed investment helped offset some of the decline in GDP. Economists continue to expect that the income tax cuts that came into effect this year will help spur faster economic growth in 2018.

The U.S. labor market continued to show broad-based strength in the month of May. Nonfarm payrolls rose by a seasonally adjusted 223,000, a significant jump from a downward revised figure of 159,000 in April. The Labor Department's report on Friday morning showed the unemployment rate ticking down a tenth of a percentage point to 3.8%—tying April 2000 as the lowest headline unemployment reading since 1969. Wage growth gained some momentum as average hourly earnings climbed 0.3% on a month-over-month basis, while the year-over-year figure remained steady at 2.7%. Labor force participation edged down to 62.7%, remaining slightly higher than a recent low in 2015 and low on a historical basis.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
GDP (QoQ Annualized)	2.2%	2.9%	▼
Initial Jobless Claims (Thousands)	221.0	217.0	▲
ISM Manufacturing	58.7	60.8	▼
Non-Farm Payrolls	223,000	324,000	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	24635.21	-0.48%	-0.34%	16.51%
NASDAQ	7554.33	1.62%	9.43%	20.93%
S&P 500 Large Cap	2734.62	0.49%	2.28%	12.53%
MSCI EAFE	1986.17	-1.41%	-3.15%	4.83%
Barclays Aggregate US	2015.76	0.52%	-1.50%	-0.29%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.90%	1.83%	0.97%
10-Year Treasury	2.90%	2.96%	2.21%

REPORTS DUE NEXT WEEK	LATEST
Durable Goods Orders	-1.70%
ISM Non-Manufacturing	56.80
Trade Balance (\$ billions)	-48.96

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.