

THE WEEK IN REVIEW

The S&P 500 traded in a narrow range this week as investors had a lot of news to digest including several notable earnings reports, ongoing trade discussions between the U.S. and China, Federal Reserve Chairman Powell's semi-annual congressional testimony about monetary policy, a pharmaceutical industry congressional hearing on drug prices, and mixed economic data. Comments from officials in the Trump administration indicated trade negotiations with China are making progress. U.S. Trade Representative Robert Lighthizer cited trade negotiation progress as the reason for the U.S. suspending its threat to increase tariffs from 10% to 25% on \$200 billion of Chinese goods. Economic data from the U.S. housing and manufacturing sectors weakened while the U.S. economy grew at a faster clip in the fourth quarter than expected.

U.S. economic growth slowed to an annualized rate of 2.6% in the final quarter of 2018 following two quarters of growth above 3.0%. This was better than economists' consensus estimate of 2.2%. The growth was supported by a 2.8% increase in consumer spending, which was robust throughout 2018 due to the strong job market, rising wages, and tax cuts. Outside the U.S., Brazil, Mexico, and Canada also reported slower fourth quarter economic growth this week.

According to the Citi Economic Surprise Index for the United States, economic data reports have not been this disappointing relative to economists' expectations since August 2017. Even at the end of 2018 the reports relative to estimates were less negative than they are today. The reversal in sentiment is likely related to policy shifts by central banks and governments which will take time to flow through to the real economy.

The core measure of the Personal Consumption Expenditure (PCE), the Fed's preferred measure of inflation, advanced at 1.9% on a year-over-year basis, supporting the Fed's current "wait and see" approach on the Fed funds rate. The University of Michigan Consumer Sentiment survey showed relatively muted inflation expectations over the near and long term, and the Manufacturing ISM® Report On Business® showed that prices paid continued to decelerate in February. All of these data reports support the Fed's current approach to monetary policy, suggesting that inflation pressures remain subdued.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Conf. Board Consumer Confidence	131.40	136.40	▼
GDP (QoQ Annualized)	2.6%	3.4%	▼
ISM Manufacturing	54.2	58.8	▼
U. of Mich. Consumer Sentiment	93.80	97.50	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	26026.32	-0.02%	11.57%	5.76%
NASDAQ	7595.36	0.90%	14.47%	5.78%
S&P 500 Large Cap	2803.69	0.39%	11.84%	4.71%
MSCI EAFE	1873.72	0.24%	8.94%	-7.35%
Barclays Aggregate US	2067.14	-0.20%	1.00%	2.89%

KEY BOND RATES	CURRENT	1WK AGO	1MO AGO	1YR AGO
3-Month T-Bill	2.43%	2.44%	2.39%	1.61%
10-Year Treasury	2.76%	2.65%	2.68%	2.81%

REPORTS DUE NEXT WEEK	LATEST
ISM Non-Manufacturing	56.7
New Home Sales (Thousands Annualized)	657
Non-Farm Payrolls	304,000
Unemployment Rate	4.0%

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