



Donald Calcagni, CFP®, MST
Chief Investment Officer

NOTE: We welcome your feedback and questions. Feel free to send us an email at CIOForum@merceradvisors.com.

The Markets (as of market close November 30, 2017)

The Dow soared over 300 points on the last day of November to close above 24,000 for the first time in its history. Hopes for a tax overhaul may have contributed to investor confidence in equities. The Nasdaq continued its strong performance in 2017, gaining over 2.0% in November, while the small caps of the Russell 2000 climbed close to 3.0%. After gaining 2.8% for November, the S&P 500 joined the Dow in posting its eighth consecutive month of positive returns. With stocks climbing, it's not surprising that long-term bond prices fell, as evidenced by the yield on 10-year Treasuries, which jumped 4 basis points over October's end-of-month yield.

By the close of trading on November 30, the price of crude oil (WTI) was \$57.39 per barrel, up from the October 31 price of \$54.54 per barrel. The national average retail regular gasoline price was \$2.533 per gallon on November 27, up from the October 30 selling price of \$2.488 and \$0.379 more than a year ago. The price of gold increased by the end of November, closing at \$1,277.40 on the last trading day of the month, up \$5.60 from its price of \$1,271.80 on October 31.

Last Month's Economic News

Total employment rose by 261,000 in October following September's job reduction. The unemployment rate edged down to 4.1%. The number of unemployed persons declined by 281,000 to 6.5 million. Since January, the unemployment rate has declined by 0.7 percentage point, and the number of unemployed persons has decreased by 1.1 million. The labor participation rate decreased by 0.4 percentage point to 62.7%. The average workweek for all employees remained at 34.4 hours

in October. Average hourly earnings fell by \$0.02 to \$26.53 after rising \$0.12 in September. Over the 12 months ended in October, average hourly earnings have risen \$0.63, or 2.4%.

GDP/budget: The second estimate of the third-quarter gross domestic product showed expansion at an annual rate of 3.3%, according to the Bureau of Economic Analysis. The second-quarter GDP grew at an annualized rate of 3.1%. Gross domestic income, which estimates all income earned while producing goods and services, increased 2.5% in the third quarter compared to an increase of 0.9% in the second quarter. As to the government's budget, October marked the beginning of fiscal year 2018. The deficit for October was \$63.24 billion (\$45.83 billion in October 2016). The federal deficit for FY 2017 was \$665.7 billion, more than \$80 billion, or 13.7%, higher than the 2016 deficit.

Inflation/consumer spending: Inflationary pressures continued to show continued upward momentum in October. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up 0.3% for the month after climbing only 0.4% in September. The core PCE price index (excluding energy and food) inched ahead 0.2% in October. Personal (pre-tax) income increased 0.4% and disposable personal (after-tax) income gained 0.5% from the prior month. Personal consumption expenditures (the value of the goods and services purchased by consumers) climbed 0.3% in October after jumping a robust 1.0% the prior month.

The Consumer Price Index, which rose 0.5% in September, edged up only 0.1% in October. For the 12 months ended in October, consumer prices are up 2.0%, a mark that approaches the Fed's 2.0% target for inflation. Core prices, which exclude food and energy, increased 0.2% in October, and are up 1.8% over the prior 12 months.

The Producer Price Index showed the prices companies receive for goods and services advanced 0.4% in October, the same

continued...

MARKET SUMMARY									
	12/04/17	1 Week	QTD	YTD	1 Year		12/04/17	12/30/16	12/04/16
S&P 500	2642	1.60 ▲	5.26	20.25 ▲	23.06 ▲	\$ per €	1.19	1.05	1.06
Dow Jones	24232	3.00 ▲	8.69	25.49 ▲	29.34 ▲	\$ per £	1.35	1.24	1.26
Russell 2000	3820	1.22 ▲	3.28	14.59 ▲	18.55 ▲	¥ per \$	112.80	116.64	114.41
MSCI EAFE	2004	-0.94 ▼	1.77	22.60 ▲	26.71 ▲	Oil (WTI)	58.36	53.75	51.08
NASDAQ	6848	-0.58 ▼	5.63	28.53 ▲	31.84 ▲	Gasoline	2.53	2.31	2.15
10-Year U.S. Treasuries	2.37	2.34 ▲	2.33	2.45 ▲	2.45 ▲	Gold	1276	1146	1162

Source: J.P. Morgan Asset Management

increase as in September. Year-over-year, producer prices have increased 2.8%. Prices less food and energy increased 0.4% for the month and are up 2.3% over the past 12 months.

Housing: The housing sector continues to gain momentum towards the end of the year. Total existing-home sales climbed 2.0% for October following a 0.7% rise in September. Over the last 12 months, sales of existing homes are down 0.9%. The October median price for existing homes was \$247,000 (\$245,100 in September), 5.5% higher than the October 2016 median price of \$234,100. Inventory for existing homes fell 3.2% for the month, representing a 3.9-month supply. The Census Bureau's latest report reveals sales of new single-family homes climbed 6.2% following September's whopping 18.7% jump. The median sales price of new houses sold in October was \$312,800 (September was \$319,700). The average sales price was \$400,200 in October, up from September's \$385,200. The number of houses for sale at the end of October was 282,000 (279,000 in September), which represents a supply of 4.9 months at the current sales rate.

Manufacturing: Industrial production increased 0.9% in October following a 0.3% increase in September. Industrial production has risen 2.9% over the past 12 months ended in October. Capacity utilization increased slightly from 76.0% in September to 77.0% in October. Manufacturing output climbed 1.3%. Mining output fell 1.3% in October after rising 0.4% in September. The index for utilities jumped 2.0% after gaining 1.5% in September. New orders for manufactured durable goods fell 1.2% in October following consecutive monthly increases of 2.2% and 1.7%. Shipments of manufactured goods, up 5 of the last 5 months, increased \$0.3 billion, or 0.1%, to \$241.0 billion.

Imports and exports: The advance report on international trade in goods revealed that the trade gap for October was \$68.3 billion, up from the \$64.14 billion trade gap in September. Exports of goods for October were \$129.1 billion, \$1.0 billion less than September exports. Imports of goods for October were \$197.4 billion, \$1.5 billion more than September imports.

International markets: In a sign that the European economy is heading in the right direction, the Bank of England raised its benchmark interest rate by 25 basis points in early November.

Germany, Italy, and Finland saw their third-quarter GDPs expand at a rate exceeding expectations, while economic growth slowed in France, Spain, and the Netherlands. Japan's GDP expanded at an annualized rate of 1.4% in the third quarter, largely driven by exports, which increased an annualized 6.0%.

Consumer sentiment: Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, increased in November to 129.5, up from 126.2 in October. According to the report, consumer confidence in the economy increased for the fifth consecutive month and remains at a 17-year high.

Eye on the Month Ahead

All indications are that the Federal Reserve will relax stimulus measures by increasing the federal funds interest rate when the Committee meets this month. December should be a good month for consumer spending on the heels of robust consumer sales on Black Friday and Cyber Monday. While trading usually slows during December, stocks are expected to close the year ahead of their 2016 values.

Key Dates/Data Releases

- 12/5: International trade
- 12/8: Employment situation
- 12/11: JOLTS
- 12/12: Producer Price Index, Treasury budget
- 12/13: Consumer Price Index, FOMC meeting release
- 12/14: Retail sales, import and export prices
- 12/15: Industrial production
- 12/19: Housing starts
- 12/20: Existing home sales
- 12/21: GDP
- 12/22: Durable goods orders, personal income and outlays, new home sales
- 12/28: International trade in goods

Sources: Forefield/Broadridge.