MERCER ADVISORS CIOFORUM

MONDAY, FEBRUARY 5, 2018

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 February 2, 2018)*

Whether it was the start of a market correction or just a blip in what otherwise has been an almost nine-year bull run, equities suffered their largest losses in quite some time last week. The Dow endured its largest weekly drop-off since last January. The S&P 500, which fell 3.85%, marked its largest decrease in two years. Lower-than-expected earnings reports from some major energy companies drove stocks down. But a possible fear that interest rates — along with inflation — would be rising may have pushed investors to sell not only equities, but long-term bonds as well.

The price of crude oil (WTI) fell for the first time in several weeks to $65.06 per barrel last Friday, down from the prior week's closing price of $66.24 per barrel. The price of gold (COMEX) decreased last week to $1,335.20 by early Friday evening, falling from the prior week's price of $1,353.30. The national average retail regular gasoline price increased for the sixth consecutive week to $2.607 per gallon on January 29, 2018, $0.040 above the prior week's price and $0.311 more than a year ago.

Last Week's Headlines

The labor sector continues to be strong entering the new year. January saw 200,000 new jobs added, while the unemployment rate remained at 4.1%, according to the latest report from the Bureau of Labor Statistics. Employment continued to trend up in construction, food services and drinking establishments, health care, and manufacturing. There were 6.7 million unemployed, yielding a labor participation rate of 62.7%, unchanged for the fourth consecutive month. The employment-population ratio was 60.1% for the third month in a row. The average workweek declined by 0.2 hours in January to 34.3 hours. Average hourly earnings rose $0.09 to $26.74, following an $0.11 increase in December. Over the year, average hourly earnings have risen by $0.75, or 2.9%. The drop in the average workweek could be an indication of a lack of available workers, which would likely hold down production.

The Federal Open Market Committee met last week for the first time in 2018, which also marked the final meeting over which Janet Yellen would preside as chairperson. The Committee did not increase the federal funds rate, noting that the labor market has continued to strengthen, and that economic activity has been rising at a solid rate. Gains in employment, household spending, and business fixed investment have been solid, and the unemployment rate has stayed low. Nevertheless, both overall inflation and inflation for items other than food and energy have continued to run below 2%. The Committee still expects three rate adjustments over the course of the year. Also, the Committee unanimously approved the selection of Jerome H. Powell as chair.

Personal income increased $58.7 billion, or 0.4%, in December, according to estimates released by the Bureau of Economic Analysis. Disposable (after-tax) personal income (DPI) increased $48.0 billion, or 0.3%, and personal consumption expenditures (PCE) increased $54.2 billion, or 0.4%. Showing little inflationary pressures, prices for consumer goods and services bumped up 0.1% (1.7% from a year ago), while prices excluding food and energy rose 0.2% for the month (1.5% from a year ago). Wages and salaries climbed a noteworthy 0.5% for the month. On the other hand, consumer savings dipped 0.1 percentage point to 2.4%, possibly an indication that consumers may have dropped into savings for purchases.

The IHS Markit final U.S. Manufacturing Purchasing Managers' Index™ (PMI™) registered 55.5 in January, up from 55.1 in December. The latest index reading indicated a strong improvement in business conditions across the manufacturing sector. Moreover, the index signaled the strongest upturn in the health of the sector for over two and a half years. The rate of manufacturers' growth accelerated at the fastest pace in 12

continued…

MARKETSUMMARY

	2/2/18	1 Week	QTD	YTD	1 Year
S&P 500	2762	-3.81 ▼	3.44	3.44 ▲	23.54 ▲
Dow Jones	25521	-4.11 ▼	3.34	3.34 ▲	31.42 ▲
Russell 2000	3845	-3.77 ▼	0.82	0.82 ▲	15.49 ▲
MSCI EAFE	2124	-2.74 ▼	3.62	3.62 ▲	26.16 ▲
NASDAQ	7241	-3.52 ▼	4.93	4.93 ▲	29.87 ▲
10-Year U.S. Treasuries	2.84	2.66 ▲	2.40	2.40 ▲	2.48 ▲

	2/2/18	12/29/17	2/2/17
$ per €	1.24	1.20	1.08
$ per £	1.41	1.35	1.25
¥ per $	110.39	112.65	112.42
Oil (WTI)	65.37	60.46	53.55
Gasoline	2.61	2.47	2.30
Gold	1331	1291	1222

Source: J.P. Morgan Asset Management

months. As demand increased, manufacturers raised their selling prices at the second-steepest pace since September 2014. At first blush, the Manufacturing ISM® Report On Business® appears to contradict Markit's report. However, a closer reading reveals that new orders are increasing, but a slowing in employment may be an indication that there aren't enough workers to meet the accelerating demands of manufacturing and product shipment.

Consumer confidence in the economy has cooled from earlier last year, yet it rose a bit in January, according to The Conference Board. Consumer confidence in the present economic situation decreased slightly, while consumers were more optimistic about economic improvement in the short term.

In the week ended January 27, initial claims for unemployment insurance was 230,000, a decrease of 1,000 from the previous week's level, which was revised down by 2,000. The advance insured unemployment rate remained 1.4%. The advance number of those receiving unemployment insurance benefits during the week ended January 20 was 1,953,000, an increase of 13,000 from the prior week's level, which was revised up by 3,000.

Eye on the Week Ahead

Equities continue to break records, as fourth-quarter corporate earnings reports remain relatively positive. This week is relatively quiet as to impactful economic reports. The December report on international trade in goods and services may reveal a shrinking trade deficit, as exports could increase following the dollar's slippage.

Key Dates/Data Releases

2/5: ISM Non-Manufacturing Index

2/6: International trade, JOLTS

Sources: Forefield /Broadridge.

1801 East Cabrillo Boulevard, Santa Barbara, California 93108 | 800.898.4642 | merceradvisors.com