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Weekly Insight

November 7, 2018

For the most part, broad market expectations for midterm results were in line. The market expected Democrats to take the House of Representatives and for Republicans to retain control of the Senate. Market analysts are of the opinion that gridlock is good for markets. Historical relationships between midterms and market performance are not strong enough to determine the validity of this opinion. However, markets ticked up the day after the elections, with the S&P 500 index up 2.12%. This large one-day performance led to the index closing the week, ending Wednesday, up 3.32%.

There was initial skepticism concerning earnings as results from the third quarter rolled in. Reported earnings growth for S&P 500 companies is around 26%, with over 85% of companies reporting. Sales have also been strong, growing at 9.7%. This growth is better than expected, with earnings and sales surprises of 6.7% and 1.5%. The largest contributor to the strength we've seen in earnings is the energy sector. The strength in reported earnings could have the potential to settle markets a bit.

Productivity for the third quarter, at 2.2%, was better than the expected 2%. This is slower than last quarter's growth of 3%, but still above the expansions average. Unit labor costs came in slightly higher than expected, at 1.2% versus 1.1%. The increase is attributed to wage growth and increasing costs of labor. Nonfarm Payrolls at 250,000 compared to the expected 193,000 in October is sure to contribute to tightening labor markets. Unemployment stayed at 3.7%.

Manufacturers still seem to be fairly optimistic. The Markit PMI Manufacturing survey for October recorded a reading of 55.7. The services survey was also positive at 54.8. A reading of 50 or greater has traditionally been seen as a positive indicator.

Construction continues to be a weak spot in the economy. Construction spending rose by a modest 1.5% in September. This is better than the expected growth of 0.10%, but still rather anemic.

Oil is down another 3% this week, taking the commodity into bear market territory after dropping nearly 20% in the last month. The decline has been attributed to signs of decreasing demand and increasing supply.

Weekly Market Topics

- **Economy**
- **Fixed Income Markets**
- **Equity Markets**

All data is as of the above referenced date.

Interest Rates (%)	Current	12M Ago	3YR Ago
Fed Funds Rate (Upper bound)	2.25	1.25	0.25
3-Month T-Bill	2.33	1.16	0.07
10-Year Treasury	3.14	2.37	2.14
30-Year Treasury	3.39	2.86	2.92
10-Year Corporate AA	4.00	3.14	3.32
10-Year High Yield Corp.	6.61	5.25	6.13

Commodity Prices ($)	Current	12M Ago	3YR Ago
Gold ($/oz.)	1,214.76	1,274.66	1,142.11
Oil (WTI, $/barrel)	65.31	52.74	56.96

Currencies	Current	12M Ago	3YR Ago
USD (Dollar Index Spot)	97.13	94.82	96.95
USD/EUR	0.88	0.86	0.91
USD/JPY	112.94	114.18	120.62

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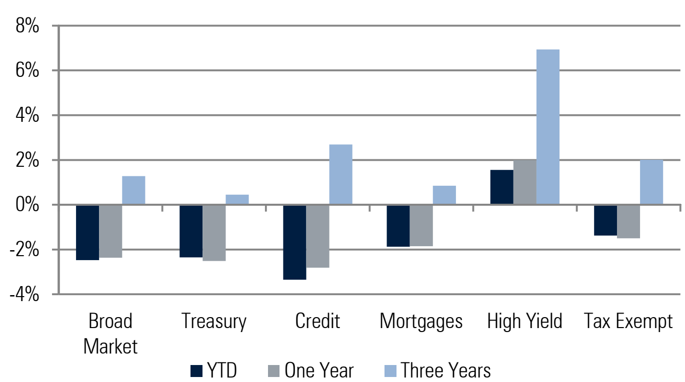
Bond Market Total Returns



Equity Market Total Returns