WEEKLY MARKET WRAP

January 9, 2018 VOLUME 25, ISSUE 1

2018 started with a shortened trading week, but still managed four new all-time highs for the S&P 500 index, which rose 2.63% as strong economic reports continued to fuel returns in equities. Equity markets outside the U.S. also started the year strong with the MSCI EM index leading the way with a 3.69% return. For U.S. fixed income, the year started in negative territory, except for high yields, as U.S. Treasury yields rose across all maturities. Longer maturity Treasuries led the initial move, reversing recent yield curve flattening. Outside the U.S., the Barclays Global Aggr Bond index posted negative returns while the JPM EM Market index moved higher.

- **Economic Data:** the *ISM manufacturing index* rose to 59.7 in December, beating the consensus expected 58.2. The *New orders index*, a forward looking index, hit the highest reading going back all the way to 2004 as it rose to 69.4 from 63.9 in Nov. *Nonfarm payrolls* rose 148,000 in December, falling short of the consensus expected 190,000. Average hourly earnings rose 0.3% in December, while total hours worked increased 0.2%. Put it all together and total earnings are up a sturdy 4.5% from a year ago, signaling plenty of growth in consumer purchasing power. The *ISM non-manufacturing index* declined to 55.9 in December, coming in below the consensus expected 57.6. For the year, the service sector activity averaged a healthy reading of 57.0. To put that in perspective, it is the second highest annual average going back to 2005. The *trade deficit* in goods and services came in at $50.5 billion in November, larger than the consensus expected $49.9 billion. Both exports and imports were up in 2017, 8.4%, which is positive for the global economy.
- **Equity:** the U.S. equity market kicked off the new year with a bullish tone as major equity indices surged to new record highs. Growth and cyclical sectors such as materials and info tech were the best performing sectors, while interest rate sensitive areas such as utilities and telecom were the worst performers. Oil rallied hard to begin the year as U.S. crude inventories declined for a seventh straight week.
- **Fixed Income:** the new year began with U.S. Treasury rates rising across all maturities. However, rising yields resulted in negative total returns for all sectors except high yield corporate bonds. Outside the U.S., the Barclays Global Aggr Bond index posted negative returns while the JPM EM Market index moved higher. Fed projections indicate three hike rates in 2018 and the market probability for a March rate hike is now at 90%.
- **Political and Policy News:** Geopolitical risks are on the rise, especially with North Korea. However, North Korea has agreed to send athletes to next month's Winter Olympic Games in South Korea and the two nations have agreed to hold military talks aimed at reducing tensions.

Index/Portfolio Returns	% Change Week	% Change QTD	% Change YTD
Barclays US Aggr Bond	-0.32%	-0.32%	-0.32%
Barclays Global Aggr Bond	-0.10%	-0.10%	-0.10%
Barclays US Corp High Yield	0.73%	0.73%	0.73%
JPM Emerging Mkts Bond	0.34%	0.34%	0.34%
S&P Equity 500	2.63%	2.63%	2.63%
Russell 3000 All Cap	2.46%	2.46%	2.46%
Russell 2000 Small Cap	1.61%	1.61%	1.61%
NASDAQ Composite	3.40%	3.40%	3.40%
S&P Global BMI	2.57%	2.57%	2.57%
MSCI EAFE	2.45%	2.45%	2.45%
MSCI EAFE Small Cap	2.25%	2.25%	2.25%
MSCI Emerging Markets	3.69%	3.69%	3.69%

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