

Investment Weekly

September 25, 2017

Economic Recap

Although economic statistics already reflect hurricane damage and economic activity is expected to slow, growth should rebound once the rebuilding begins. Hurricane Harvey contributed to a 1.7% decline in existing home sales; however this was the fourth decline in five months. While housing starts also declined modestly in August, a rising number of permits indicate building activity will reaccelerate. Low inventory and higher prices have limited sales, but that should encourage rebuilding. The reported lack of construction workers, however, may slow the work.

Stronger economic reports support the Fed's decision to unwind its balance sheet. The Leading Economic Index rose for the twelfth straight month and business leaders remain optimistic. The Philly Fed Index showed improved activity, as did a preliminary reading of 53.0 on the Markit Manufacturing Purchasing Managers Index (PMI). Meanwhile, the Services PMI (55.1) and the Empire Nonmanufacturing Index showed modestly moderating services activity.

Reports were even stronger overseas. Germany's flash Markit Manufacturing PMI rose to 60.6. France reported 56.0 with the Eurozone reporting 58.2. Services PMIs were comparable to the U.S. reading: 55.6 in Germany, 54.8 in France and 55.6 for the Eurozone. Separately, Japanese exports rose 18.1% while imports rose 15.2% and Canada's retail sales rose a surprising 0.4%.

Economic Calendar (U.S.)

Tuesday – Consumer Confidence
Wednesday – Durable Goods Orders
Thursday – GDP, Jobless Claims
Friday – Personal Income & Outlays

Economic Calendar (International)

Tuesday – FR Business Climate Indicator
Thursday – EZ Economic Sentiment, DE CPI
Friday – IT/FR CPI, GB GDP

Interest Rates & Yields

| Rate | Current | 1 Mo. Ago | 1 Yr. Ago |
|------------------------------|---------|-----------|-----------|
| Effective Federal Funds Rate | 1.16% | 1.16% | 0.40% |
| Target 90-day T-bill | 0.99% | 0.98% | 0.16% |
| U.S. 2-yr Trsy Yield | 1.43% | 1.32% | 0.77% |
| U.S. 10-yr Trsy Yield | 2.25% | 2.21% | 1.62% |
| U.S. 30-yr Trsy Yield | 2.78% | 2.78% | 2.34% |
| U.S. 5-yr Muni Yield | 1.39% | 1.26% | 1.15% |
| Investment Grade Yield | 3.56% | 3.51% | 3.33% |
| High Yield | 5.37% | 6.20% | 6.22% |

Financial Market Recap

US stocks ended higher last week, with large cap stocks adding 0.1% and small caps gaining 1.6%.

The biggest news of the week came from the Federal Open Market Committee (FOMC), which kept the target range for the federal funds rate at 1.00% - 1.25%. The Fed expects interest rates to rise at a gradual pace, and its "dot plot" shows the median FOMC member continues to anticipate one additional rate hike in 2017 and three rate hikes in 2018. As a result, the Fed Funds futures market, which reflects investor rate-hike expectations, upped the chances of a December rate hike to 63% from just 34% at the end of August.

In addition, the Fed announced that it will begin to normalize its balance sheet in October. Recall that the Fed initiated its quantitative easing (QE) program to help stimulate the economy following the great financial crisis. Specifically, the Fed purchased Treasuries and mortgage bonds, increasing its balance sheet from about \$800 billion to \$4.5 trillion. As with the pace of its rate hikes, the Fed plans to proceed slowly in shrinking its balance sheet.

On the political front, Republicans' latest attempt to pass a new health-care bill (Graham-Cassidy) looks headed for defeat. The Republicans can lose only two votes to pass the bill. Senators Rand Paul and John McCain have already said they were voting against the bill and Senator Susan Collins indicated that she has serious reservations about the bill.

Looking ahead to this week, the economic calendar will be busy. Scheduled releases include Case-Shiller home prices, new home sales, consumer confidence, GDP, durable goods orders, personal income, and personal spending.

Index Returns

| Index | WTD | MTD | YTD | 1-Yr. |
|----------------------------|--------|--------|--------|--------|
| S&P 500 Large Cap | 0.08% | 1.24% | 11.76% | 15.59% |
| S&P 400 Mid Cap | 0.36% | 2.18% | 6.51% | 14.05% |
| S&P 600 Small Cap | 1.63% | 4.10% | 4.40% | 15.21% |
| S&P Developed Mkts ex-U.S. | 0.44% | 2.52% | 20.23% | 18.19% |
| S&P Emerging Markets | -0.92% | 1.34% | 29.03% | 22.31% |
| Bloomberg Commodity | -0.25% | 0.30% | -2.43% | 1.38% |
| Barclays U.S. Aggregate | -0.05% | -0.38% | 3.24% | 0.23% |
| Barclays Municipals | -0.13% | -0.19% | 5.00% | 1.23% |
| Barclays U.S. High Yield | 0.11% | 0.60% | 6.69% | 8.98% |
| HFRX Eq. Wgt. Hedge Funds | 0.17% | 0.41% | 3.71% | 5.26% |

All data as of market close: 09/22/2017

Source: Bloomberg



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