First Trust

Weekly Market Commentary

Week Ended December 28th, 2018

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	2.371 (-0.5 bps)	GNMA (30 Yr) 6% Coupon:	105-09/32 (4.35%)
6 Mo. T-Bill:	2.465 (-6.2 bps)	Duration:	4.05 years
1 Yr. T-Bill:	2.578 (-4.0 bps)	Bond Buyer 40 Yield:	4.09 (unch.)
2 Yr. T-Note:	2.516 (-12.3 bps)	Crude Oil Futures:	45.33 (-0.26)
3 Yr. T-Note:	2.495 (-12.4 bps)	Gold Spot:	1,280.71 (+23.77)
5 Yr. T-Note:	2.555 (-8.4 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.718 (-7.2 bps)	U.S. High Yield:	8.03 (unch.)
30 Yr. T-Bond:	3.022 (-0.9 bps)	BB:	6.32 (unch.)
		B:	8.48 (+2 bps)

Treasury prices rose over the course of the week amidst high volatility in the equity markets. Treasury prices rose significantly on Monday as equities plummeted after there were reports that President Donald Trump was considering firing Federal Reserve Chairman Jerome Powell. A tweet from the President criticizing the Fed led to increased speculation and investors to seek the perceived safety of Treasuries. However, White House officials denied reports that the President was considering the move and equities soared on Wednesday, causing Treasury prices to drop significantly. Treasury prices then rose moderately on both Thursday and Friday in the wake of volatile days in the equity markets as investors still have concerns over the government and the economy. On Thursday, the Chairman of the Council of Economic Advisers Kevin Hassett said that Powell's job was 100% safe, but there has been no assurance from the President. Major economic reports (related consensus forecasts, prior data) for the upcoming holiday-shortened week include: Wednesday: December Final Dallas Fed Manf. Activity (15.0, 17.6), November Prelim. Wholesale Inventories MoM (0.5%, 0.8%), November New Home Sales (568k, 544k); Thursday: December 28 MBA Mortgage Applications, December ADP Employment Change (180k, 179k), December 29 Initial Jobless Claims (225k, 216k), November Construction Spending (0.3%, -0.1%), December ISM Manufacturing (57.8, 59.3); Friday: December Change in Nonfarm Payrolls (180k, 155k), December Unemployment Rate (3.7%. 3.7%).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	23,062.40 (+2.75%)	Strong Sectors:	Consumer Discretionary, Info Tech, Communication Services
S&P 500:	2,485.74 (+2.89%)		
S&P Midcap:	1,646.49 (+2.23%)	Weak Sectors:	Utilities, Real Estate, Consumer Staples
S&P Smallcap:	840.21 (+3.84%)		
NASDAQ Comp:	6,584.52 (+4.00%)	NYSE Advance/Decline:	2,294/776
Russell 2000:	1,337.92 (+3.62%)	NYSE New Highs/New Lows:	11 / 1,493
		AAII Bulls/Bears:	31.5% / 50.3%

After beginning the week in freefall, equites rose for the week on a dramatic melt up in stocks on Wednesday that saw the Dow Jones Industrial Average gain 1,086 points in one day. Already elevated market volatility was exacerbated by lower than normal market liquidity due to the holiday-shortened week and the partial government shutdown. In addition, Treasury Secretary Steven Mnuchin stirred fears of a liquidity crisis in the financial system by calling all six major banks to check on their status. Although he declared liquidity is fine within the banking system, the announcement unnerved many investors. The S&P 500 Index after dividends is on pace for its first annual loss since 2008 as slowing growth, tariffs and a further tightening from the Federal Reserve remain key headwinds for investors in 2019. While investor uncertainty has increased, consumer spending remains strong as U.S. holiday sales increased by the largest clip in six years. In stock news, many retailers jumped on the back of the strong holiday sales including **Macy's Inc.** and **Kohl's Corp.** bouncing over 6%. **Amazon.com, Inc.** gained over 7% for the week after announcing record breaking holiday shopping numbers. Looking ahead, sentiment will continue to drive short-term returns of the market as the partial government shutdown will continue to make headlines next week. Longer term, fundamentals tend to play a bigger role in market returns. Fourth quarter earnings season will start mid-January, which is expected to see continued strong earnings growth with the S&P 500 anticipated to grow earnings by over 20% for the full year. While investors have pulled tens of billions of dollars from equity mutual funds over the past weeks and months and bearish sentiment is at a five-year high, both tend to be contrarian indicators that might point to a rebound in equities if some of the current clouds over the market lift.