First Trust

Weekly Market Commentary

Week Ended June 22, 2018

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	1.907 (-1.0 bps)	GNMA (30 Yr) 6% Coupon:	107-05/32 (3.82%)
6 Mo. T-Bill:	2.084 (2.6 bps)	Duration:	3.96 years
1 Yr. T-Bill:	2.320 (1.8 bps)	Bond Buyer 40 Yield:	3.98 (-2 bps)
2 Yr. T-Note:	2.541 (-0.6 bps)	Crude Oil Futures:	68.58 (3.52)
3 Yr. T-Note:	2.641 (-3.3 bps)	Gold Spot:	1,270.56 (-8.38)
5 Yr. T-Note:	2.767 (-3.1 bps)	Merrill Lynch High Yield Indices:	
10 Yr. T-Note:	2.895 (-2.6 bps)	U.S. High Yield:	6.43 (3 bps)
30 Yr. T-Bond:	3.039 (-0.7 bps)	BB:	5.37 (4 bps)
		B:	6.67 (3 bps)

Last week began with tariff threats causing investors to worry about the impact to global economic growth and resulted in a safety bid for Treasuries. The rates market was also buoyed by political concerns in Europe, namely, the appointment of two Euro-skeptics to chair key economic committees in Italy. The benchmark 10-year note yield declined to 2.89% on Tuesday which resulted in the spread between two- and 10-year notes reaching a low of 35bps, a level not seen since 2007. Federal Reserve Chairman Jerome Powell's hawkish comments at the ECB's annual policy conference on Wednesday caused Treasuries to reverse course. Chairman Powell reaffirmed the need for additional federal-funds rate hikes due to a tight labor market and anchored inflation expectations. The Labor Department reported a decline in Initial Jobless Claims by 3,000 on Thursday, the fourth consecutive weekly decline. Major economic reports (related consensus forecasts, prior data) for the upcoming week include: Monday: May New Home Sales (667k, 662k); Tuesday: June Conference Board Consumer Confidence (128.0, 128.0); Wednesday: June 22 MBA Mortgage Applications (N/A, 5.1%), May preliminary Wholesale Inventories MoM (0.2%, 0.1%), May preliminary Durable Goods Orders (-0.9%, -1.6%); Thursday: 1Q GDP Annualized QoQ (2.2%, 2.2%), June 23 Initial Jobless Claims (220k, 218k); Friday: May Personal Income (0.4%, 0.3%), May Personal Spending (0.4%, 0.6%), June Chicago Purchasing Manager (60.0, 62.7) and June Final University of Michigan Sentiment (99.2, 99.3).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	24,280.89 (-2.03%)	Strong Sectors:	Real Estate, Utilities
S&P 500:	2,754.88 (-0.87%)		Energy
S&P Midcap:	1,989.61 (-0.13%)	Weak Sectors:	Info. Tech, Materials
S&P Smallcap:	1,042.57 (0.31%)		Industrials
NASDAQ Comp:	7,692.82 (-0.68%)	NYSE Advance/Decline:	1,552 / 1,511
Russell 2000:	1,685.58 (0.11%)	NYSE New Highs/New Lows:	243 / 195
		AAII Bulls/Bears:	38.7% / 26.2%

Last week, disappointing equity returns can largely be distilled down to one word, tariffs. The S&P 500 returned -0.87%, the Dow Jones Industrial Average returned -2.03%, and the NASDAQ Composite returned -0.68%. Interest rate sensitive sectors tended to outperform more cyclical sectors. Trade tensions between U.S. and China ebbed last week. President Donald Trump outlined expanding tariffs on $200b in additional goods if China took retaliatory measures against the initial U.S. tariffs on $50b of goods that start in early July. Predictably, Beijing accused President Trump of starting a trade war and threatened equivalent retaliation. Of note, the U.S. exported $130b worth of goods in 2017, so if China were to equally retaliate on $250b worth of goods, they would either need to increase the tariff rate that the U.S. is threatening, or risk coming up short on tariff revenue. China could decide to use other potential trade levers, such as selling some or all of their U.S. Treasury stockpile or devaluing their currency. Both options could potentially achieve similar trade effects. President Trump remained tariff busy on Friday, threatening a 20% tariff on European car imports if the EU doesn't augment their existing tariffs on U.S.-made autos. As risks of a trade war grow, returns are generally worse for large-cap names, which tend to have more foreign exposure; compared to small-cap names, which tend to have more dollar exposure. The large-cap S&P 500 index has returned 7.20% since April 2nd, the day President Trump formally proposed tariffs on Chinese trade, compared to the small-cap S&P 600 index which has returned 13.97%. **Intel Corp.** had a busy week after their now ex-CEO Brian Krzanich resigned while admitting to a consensual relationship with another worker at the company, which violated company policy. Intel announced interim CEO Bob Swan would run the company while they search for a replacement. **Starbucks Corp.** saw its shares tumble over 9% after announcing poor Frappuccino sales and disappointing global comps. Overall, strong macroeconomic fundamentals can overcome geopolitical risks even if investors require higher risk premiums.