

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished May at 24,416, up 1.05% for the month and -1.23% year-to-date. The Standard & Poor's 500 closed May 31 at 2,705, up 2.16% for the month and 1.18% so far for the year. The NASDAQ Composite gained 5.32% in May, up 7.80% so far in 2018. Small company stocks as measured by the Russell 2000 ended May at 1,633, gaining 5.95% for the month and 6.39% year-to-date. Technology (+7.13%) was the strongest performing sector, while Telecom (-2.27%) was the weakest in May.

"To some observers, the market looks even stronger under the surface. The small-company Russell 2000 traded at a new all-time high last Monday, suggesting that there's more to this market than just gains in a few big stocks." Barron's, The Trader by Ben Levisohn, May 26, 2018

Employment Reports

The unemployment rate fell to 3.8% in May, matching April 2000 as the lowest level since 1969. Wages increased 2.7%, a rate considered healthy given the historically tight labor market. According to data released by the Labor Department, U.S. job openings now exceed the number of unemployed Americans 6.7 million to 6.3 million, highlighting the challenge employers are facing finding qualified labor in the current environment. The market responded favorably to the latest release, many considering it evidence of a persistently strong underlying economy with wage inflation still under control. Moving forward, whether employers' increasing difficulty filling positions will lead to spikes in inflation will be closely watched.

Fixed Income

The Federal Reserve is expected to raise interest rates for the second time this year during their June 12-13 meeting. A third rate hike is already penciled in, putting the expected federal funds rate at a range of 2% - 2.25% by the end of 2018. The two-year treasury note ended May yielding 2.4% , while the 10-year ended at 2.83% after briefly reaching a multiyear high of 3.11% during the month. Prices fall as yields rise for bonds, and the Barclay's Aggregate Bond Index is -2.74% so far in 2018. Relative outperformance in asset classes like junk bonds and mortgage-backed securities in 2018 may be tempting to some investors, but following a disciplined and diversified approach focused on high-quality and moderate to short duration bonds may be advised given the increasing risk and uncertainty in the intermediate term.

"One of the problems facing the market is that leadership remains too narrow," says Satya Pradhuman, director of research at Cirrus Research. "He points to the high valuation of the best-performing large-cap stocks relative to the market as one reason for concern. Normally, these so-called momentum stocks trade at a premium of 0% to 70% to the rest of the market. Now they're nearly at a 120% premium, a level that in the past has signaled trouble. He recommends investors favor 'quality' stocks - those with higher returns on equity, less debt, and more - predictable earnings." (Barron's, The Trader by Ben Levisohn, June 2, 2018)

Corporate Profits

With 97% of the S&P 500 reporting, the estimated earnings growth rate for Q1 2018 is 24.6%, the highest growth rate since 2010. The blended sales growth rate is 8.5%, indicating top line sales growth for companies and a positive signal for continued earnings growth through 2018. Along with other firm economic indicators, these strong earnings have provided support to the equity markets amidst the ongoing volatility surrounding global trade negotiations and geopolitical uncertainty.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 04/30/2018	CLOSE AS OF 05/31/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	24163.15	24415.84	+252.69	-1.23%
S&P 500	2648.05	2705.27	+57.22	+1.18%
NASDAQ Composite	7066.27	7442.12	+375.85	+7.80%
RUSSELL 2000	1541.88	1633.61	+91.73	+6.39%
Fed Funds Rate	1.5% - 1.75%	1.5% - 1.75%	UNCHANGED	
2-Year Treasury	2.49%	2.40%	-.09%	
10-Year Treasury	2.95%	2.83%	-.12%	
Crude Oil \$ per Barrel	\$68.57	\$67.04	-\$1.53	+10.96%
Gold \$ per Troy oz.	\$1319.20	\$1304.70	-\$14.50	-0.35%
UK Pound in U.S. \$	\$1.3774US = 1£	\$1.3307US = 1£	\$ STRONGER	-1.63%
Euro in U.S. \$	\$1.2082US = 1€	\$1.1673US = 1€	\$ STRONGER	-2.79%
Canada \$ per U.S. \$	\$1.28195C \$1.00 US	\$1.2972C \$1.00 US	\$ STRONGER	+3.53%
Japan Yen per U.S. \$	109.425¥=\$1.00 US	108.645¥=\$1.00 US	\$ WEAKER	-3.56%



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