

# THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished August at 25,965, up 2.16% for the month and +5.04% year-to-date. The S&P 500 closed Aug. 31 at 2,901, up 3.03% for the month and 8.52% so far for the year. The NASDAQ Composite gained 5.71% in August, up 17.47% so far in 2018. Small company stocks as measured by the Russell 2000 ended August at 1,740, gaining 4.19% for the month and 13.37% year-to-date. Energy (-3.8%) and Materials (-0.7%) were the only sectors to see losses in August.

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"U.S. stocks are back at all-time highs after a dizzying August rally, prompting some investors to fear a reckoning heading into what historically has been a weak stretch for markets." The Wall Street Journal, [Stocks' Return to Records Paves Way for Volatile Autumn](#) by Akane Otani, Sept. 3, 2018

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## Fixed Income

Citing strength in the underlying economy, the Federal Reserve has signaled their intention to continue gradual interest rate increases in the near-term. A rate hike is expected following their Sept. 26 meeting, with another expected in December, bringing the total number of rate increases in 2018 to four. While rates remain relatively low by historical standards, rising interest rates are expected to put downward pressure on growth in 2019 and beyond, as the cost of capital to fund companies' growth and the cost of home buying increases. Rising interest rates also negatively affect the price of existing bonds, with the Barclay's Aggregate Bond index down -1.12% year-to-date on a total return basis. Investors may help limit their interest rate risk by focusing on short- and intermediate-duration bonds.

## Yield Curve

Observers are closely watching the relationship between short- and long-term U.S. government bond yields, or the yield curve. The yield curve is typically upward sloping, as longer-term bonds receive higher yields than shorter ones. If short-term yields begin to exceed longer-term, however, the curve becomes downward sloping or inverted — a condition which has preceded each recession since 1955. While the yield curve isn't currently inverted, it has been flattening. The difference between the two- and 10-year treasury yields at month's end was near the tightest since 2007 (0.24%). Importantly, an inverted yield curve does not indicate the timing nor the severity of recession. Recessions have come as quickly as six months to as long as two years after inversion in the past. This data point and its associated risk are one of many indicators observers are watching as we proceed through the late stages of what has been one of the longest bull markets in history. Investors are encouraged to ensure, as always, that their asset allocation and risk profile matches their long-term needs and goals.

"Others worry that, with global trade negotiations still in flux, investors may be caught off guard by an unexpected breakdown in talks. Even as trade fears have spurred selling in markets across Asia and Europe, the U.S. has held up relatively well — something some analysts worry points to complacency among investors..." For the most part, the U.S. has brushed aside trade concerns, which means if this escalates, we could see an asymmetric reaction to this," said Jason Draho, head of Americas asset allocation at UBS Global Wealth Management's chief investment office. (The Wall Street Journal, [Stocks' Return to Records Paves Way for Volatile Autumn](#) by Akane Otani, Sept. 3, 2018)

## Corporate Profits

The Commerce Department's report on corporate profits for the second quarter showed year-over-year profit growth of 16.1%, the strongest growth in six years. Tax cuts were an important factor, although companies also saw a 9.5% growth in sales. This may be in part due to increased consumer confidence, as the Conference Board's consumer confidence index recently hit its highest reading since October 2000. Surprise strength in store-based retailers and consumer staples like food and household goods may also point toward healthy consumer demand, an important part of the U.S. economy.

## MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 07/31/2018	CLOSE AS OF 08/31/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	25,415.19	25,964.82	+549.63	+5.04%
S&P 500	2,816.29	2,901.52	+85.23	+8.52%
NASDAQ Composite	7,671.79	8,109.54	+437.75	+17.47%
RUSSELL 2000	1,670.8	1,740.75	+69.95	+13.37%
Fed Funds Rate	1.75% - 2.0%	1.75% - 2.0%	UNCHANGED	
2-Year Treasury	2.67%	2.62%	-.05%	
10-Year Treasury	2.96%	2.86%	-.10%	
Crude Oil \$ per Barrel	\$68.76	\$69.80	+\$1.04	+15.52%
Gold \$ per Troy oz.	\$1,233.60	\$1,206.70	-\$26.90	-7.84%
UK Pound in U.S. \$	\$1.3118US = 1£	\$1.2998US = 1£	\$ STRONGER	-3.92%
Euro in U.S. \$	\$1.1701US = 1€	\$1.1635US = 1€	\$ STRONGER	-3.11%
Canada \$ per U.S. \$	\$1.302C \$1.00 US	\$1.30395C \$1.00 US	\$ STRONGER	+4.07%
Japan Yen per U.S. \$	111.94¥ = \$1.00 US	110.885¥ = \$1.00 US	\$ WEAKER	-1.57%



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