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## Stocks Surge Ahead, New Tax Bill Looks Imminent and The Fed Surprises No One With Another Increase

Weekly Economic Updates – December 16, 2017

- Stocks ended with new record highs again this week as Wall Street continued to digest the potential impact of tax reform, which could be voted on as early as next week
- NASDAQ jumped 1.4%, the DJIA moved 1.3% and the S&P 500 added 0.9% - all three major indices ended the week at new record highs



- In the unanimously expected move (the markets priced in the odds at 100%), the Fed Federal Reserve announced that it would raise the federal funds rate by 0.25% to 1.25%-1.50% - its third interest rate hike this year
- In addition to raising the federal funds rate, the Fed's so-called "dot plot" showed that the Fed will likely have three rate hikes in 2018 and two in 2019 – but a lot could happen between now and then
- Interestingly, Chicago Fed President Charles Evans and Minneapolis Fed President Neel Kashkari voted to keep the target range unchanged
- U.S. Treasuries moved higher in a curve-flattening move on Wednesday following the Fed's announcement, while the U.S. Dollar Index moved significantly lower
- The 2yr-10yr spread ended the week at 52 basis points, which is six basis points below last week's closing
- The U.S. Dollar Index finished the week up by 0.1%

## Weekly Market Performance

|                        | Close    | Week   | YTD    |
|------------------------|----------|--------|--------|
| DJIA                   | 24,652   | 1.3%   | 24.7%  |
| S&P 500                | 2,676    | 0.9%   | 19.5%  |
| NASDAQ                 | 6,937    | 1.4%   | 28.9%  |
| MSCI EAFE              | 2,017    | 0.9%   | 19.7%  |
| *Bond Index            | 2,048.32 | 0.29%  | 3.07%  |
| 10-Year Treasury Yield | 2.35%    | -0.02% | -0.09% |

\*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results.

## Large-Cap Indices Reach New Highs

The large-cap DJIA and S&P 500 both reached new highs again this week, as did the technology-laden NASDAQ. The smaller-cap benchmarks, on the other hand, fell this week and is still a bit off from its record high reached earlier this month.

Within the S&P 500 Index, telecom jumped 4.0%, driven by the Federal Communications Commission's decision to eliminate the "net neutrality" rules established by the Obama

administration in 2015. In simple terms, the rules required broadband providers to treat all internet traffic equally.

Consumer discretionary and consumer staples investors had a good week, with consumer discretionary driven by the news that Walt Disney agreed to purchase select assets from 21st Century Fox, including its film division and most of its TV operations, for \$52.4 billion in stock. The two companies added 6.8% and 5.1% to their stock price, respectively, pushing the consumer discretionary sector (+1.1%) to finish the week strongly.

The materials and utilities sectors faltered and the energy sector was also weak, despite oil prices climbing above \$65 on Tuesday, their highest level since June 2015.

## Final Tax Bill?

In Washington, House and Senate Republicans reached an agreement on their tax reform bill, but then Republican Senator Rubio said he would vote against the bill unless it expanded the child tax credit for lower-income families. With a few tweaks, the majority Republicans earned Rubio's vote and it now appears that the Republicans have enough votes to pass their new tax bill. But it's worth noting that a final vote won't happen until next week – and a lot can happen between now and then.

## The Federal Reserve Surprises No One

While investors waited for the final outcome of the Federal Reserve's monetary policy meeting on Tuesday and Wednesday, no one was surprised by the Fed's announcement raising the federal funds rate by 0.25% to 1.25%-1.50% - its third interest rate hike this year.

What was a little surprising to some, however, was that Chicago Fed President Charles Evans and Minneapolis Fed President Neel Kashkari voted to keep the target range unchanged, likely in response to the fact that overall inflation and core inflation have declined this year and are running below 2.0%.

Directly from the Fed: *"Information received since the Federal Open Market Committee met in November indicates that the labor market has continued to strengthen and that economic activity has been rising at a solid rate. Averaging through hurricane-related fluctuations, job gains have been solid, and the unemployment rate declined further. Household spending has been expanding at a moderate rate, and growth in business fixed investment has picked up in recent quarters. On a 12-month basis, both overall inflation and inflation for items other than food and energy have declined this year and are running below 2 percent. Market-based measures of inflation compensation remain low;*

*survey-based measures of longer-term inflation expectations are little changed, on balance.”*

## Economic Data Very Positive

Reviewing economic data, investors saw that retail sales are up, business confidence is up and consumer confidence hit a new 17-year peak.

- Retail sales jumped 0.8% in November and 5.8% compared to a year ago
- October sales were revised up to 0.5% from 0.2%
- The NFIB Small Business Optimism Index hit its highest level in 34 years and second-best in its 44-year history
- Industrial Production increased 0.2% in November while the October increase was revised to 1.2%
- Capacity Utilization ticked up to 77.1% from an unrevised reading of 77.0% in October
- The Empire Manufacturing Survey for December declined to 18.0 from the prior month's reading of 19.4

### Sources

[nfib.com](http://nfib.com); [newyorkfed.org](http://newyorkfed.org); [conference-board.org](http://conference-board.org); [commerce.gov](http://commerce.gov); [census.gov](http://census.gov); [mfs.com](http://mfs.com); [cmegroup.com](http://cmegroup.com); [federalreserve.gov](http://federalreserve.gov); [tiaa.org](http://tiaa.org); [nasdaq.com](http://nasdaq.com); [dowjones.com](http://dowjones.com); [morningstar.com](http://morningstar.com); [edwardjones.com](http://edwardjones.com); [bloomberg.com](http://bloomberg.com)

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