

Barring any geopolitical surprises, the week is expected to start out slowly ahead of the Fed rate decision on Wednesday. Most analysts expect a 25bp hike to set the Fed Funds rate at 175bp. Thursday sees Jobless Claims, PMI and Leading Index Data, while Friday investors are watching Durable Goods and New Home Sales numbers.

Turning to the Fed rate decision, as the yield curve has flattened in the last few weeks (10 / 2 Year spread has narrowed), the Fed has been painted into a corner somewhat, as they cannot raise short-term rates aggressively, without inverting the yield curve (short-term rates higher than long-term rates). Historically an inverted yield curve has been a fairly good predictor of recessions, and inverted curves negatively impact bank net interest margins, pressuring the banking sector. As such, we do not believe the Fed will announce rates hikes exceeding 25bp this week.

Our tactical model remains neutral (60/40) this week.

MONDAY MARCH 19, 2018
Fed Bostic Speech
TUESDAY MARCH 20, 2018
Redbook
WEDNESDAY MARCH 21, 2018
MBA Mortgage Applications
Current Account
Existing Home Sales
Fed Interest Rate Decision
THURSDAY MARCH 22, 2018
Continuing Jobless Claims
Initial Jobless Claims
House Price Index
Markit Composite PMI Flash
CB Leading Index
Kansas Fed Manufacturing Index
FRIDAY MARCH 23, 2018
Fed Bostic Speech
Durable Goods Orders
New Home Sales
Fed Kashkari Speech

GAUGE OF THE GRADE



Above chart courtesy www.cmegroup.com

Ahead of this week's housing data, it is interesting to review the price of lumber over the past year. The adjacent graph shows that lumber prices have increased roughly 32% in the past year, driven by duties on Canadian lumber imports into the US. According to 2017 NAHB data, lumber contributes approximately 16% to overall home construction costs. As lumber prices are expected to rise throughout 2018, the impact on new home demand may pressure homebuilder stocks this year.

SECTOR RETURNS

	5 DAYS	1 MONTH	3 MONTHS	6 MONTHS	12 MONTHS
Basic Materials	-2.9	-1.7	1.5	6.9	14.2
Communication Services	-2.2	-1.4	-2.9	-0.8	-5.9
Consumer Cyclical	-1.0	-0.3	6.8	15.9	21.2
Consumer Defensive	-1.9	-2.9	-4.3	-1.4	-0.5
Energy	-1.1	-0.9	-1.4	3.9	-1.8
Financial Services	-2.2	0.3	5.4	17.6	18.2
Healthcare	-0.9	1.5	4.9	5.5	15.8
Industrials	-2.0	-0.3	3.1	10.9	16.5
Real Estate	1.0	2.0	-8.3	-8.0	-3.1
Technology	-1.0	4.4	10.8	21.2	36.2
Utilities	1.9	1.2	-7.9	-6.8	0.8



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SOWELL'S WEEK AHEAD

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