THE PEOPLES BANK

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INVESTMENT COMMITTEE MARKET COMMENTS

June 2018

STOCK MARKET INDEX DATA	Current Index	MTD Return	YTD Return	2017 Return
as of May 31, 2018				
Dow Jones Industrials Average	24,415.84	1.05%	-1.23%	25.08%
S&P 500	2,705.27	2.16%	1.18%	19.42%
Nasdaq	7,442.12	5.32%	7.80%	28.24%

STOCK MARKET UPDATE

Stocks recorded solid gains last week, with the Nasdaq Composite and S&P MidCap 400 indexes reaching new peaks and the S&P 500 Index hitting its best level since early March. Despite setting a record, the technology-heavy Nasdaq lagged the other benchmarks due to declines late in the week. On a sector basis, consumer discretionary shares performed best within the S&P 500 Index, while utilities stocks suffered substantial losses as long-term Treasury yields rose, making their relatively high dividend payments less attractive in comparison.

Bond Types	3 Mo	6 Mo	2 Year	5 Year	10 Year	30 Year
U.S. Treasury	1.95%	2.14%	2.55%	2.82%	2.96%	3.09%
Agency/GSE	2.03%	2.15%	2.80%	3.27%	3.92%	3.99%
Corporate (Aaa/AAA)		2.07%	2.50%	3.11%	3.45%	4.09%
Corporate (Aa/AA)	2.23%	2.47%	3.30%	3.66%	3.91%	4.69%
Municipal (Aaa/AAA)	1.50%	1.55%	1.87%	2.29%	3.07%	3.61%
Municipal (Aa/AA)	1.62%	1.67%	2.09%	2.64%	3.67%	4.16%
Taxable Municipal	2.24%	2.50%	3.35%	3.65%	4.10%	4.98%

FIXED INCOME MARKET UPDATE

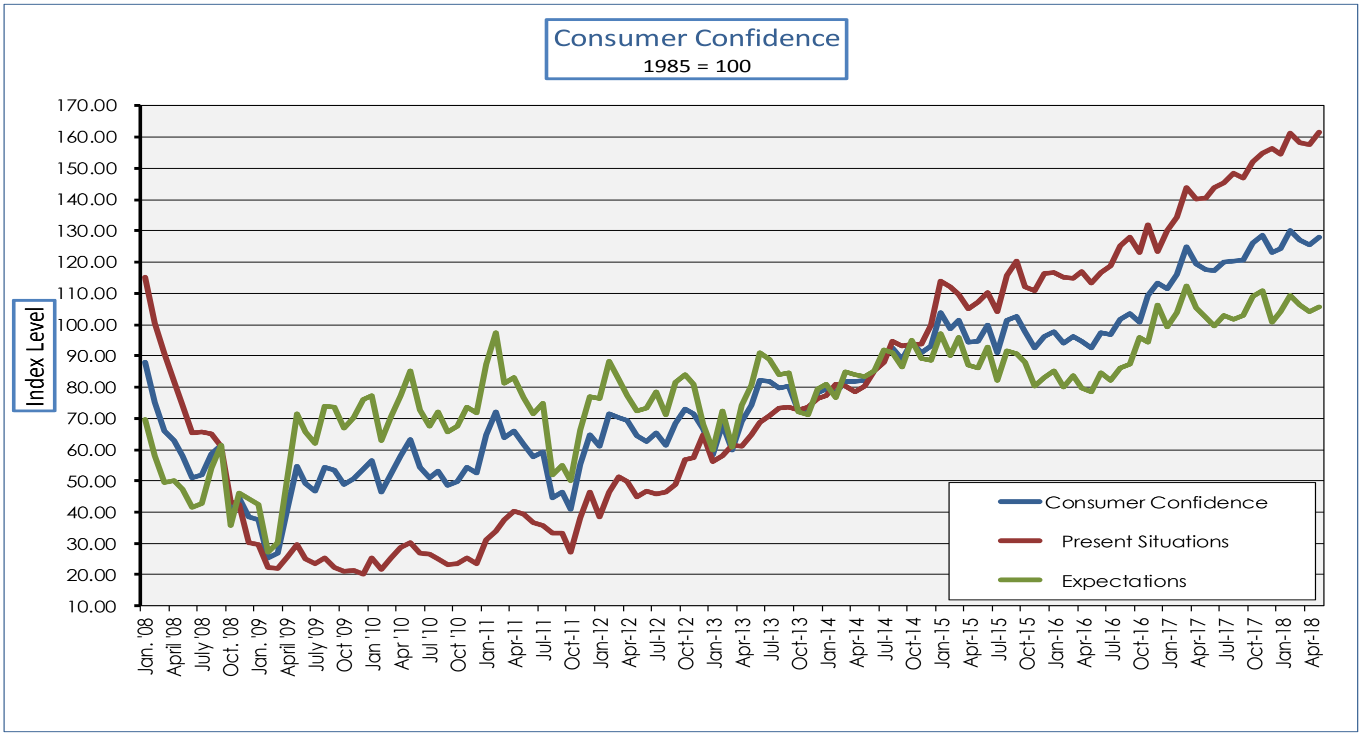
Treasury yields ended modestly higher last week after peaking Wednesday afternoon. (Bond yields and prices move in opposite directions.) The return of a sizable new issuance calendar was the focus for many municipal investors. The issues witnessed solid demand but not the oversubscription that had been a staple of the market over the last few weeks. Weakness in the Treasury market weighed on muni performance, and analysts noted that cash inflows into the sector appear to be concentrating on shorter-term securities.

While the market and the Fed seem to be in agreement that rates will be higher by the end of 2018 than they are now, the path forward is not obvious. Both the dot plot and the futures market suggest three rate hikes for 2018, but with economic conditions having improved substantially, there is upside risk to that call. Moreover, 2019 and beyond become even murkier: the Fed lacks full market buy-in, but may still be too cautious in its estimates. For these reasons, investors should pay close attention to this week's FOMC announcement and prepare for tighter monetary policy ahead.

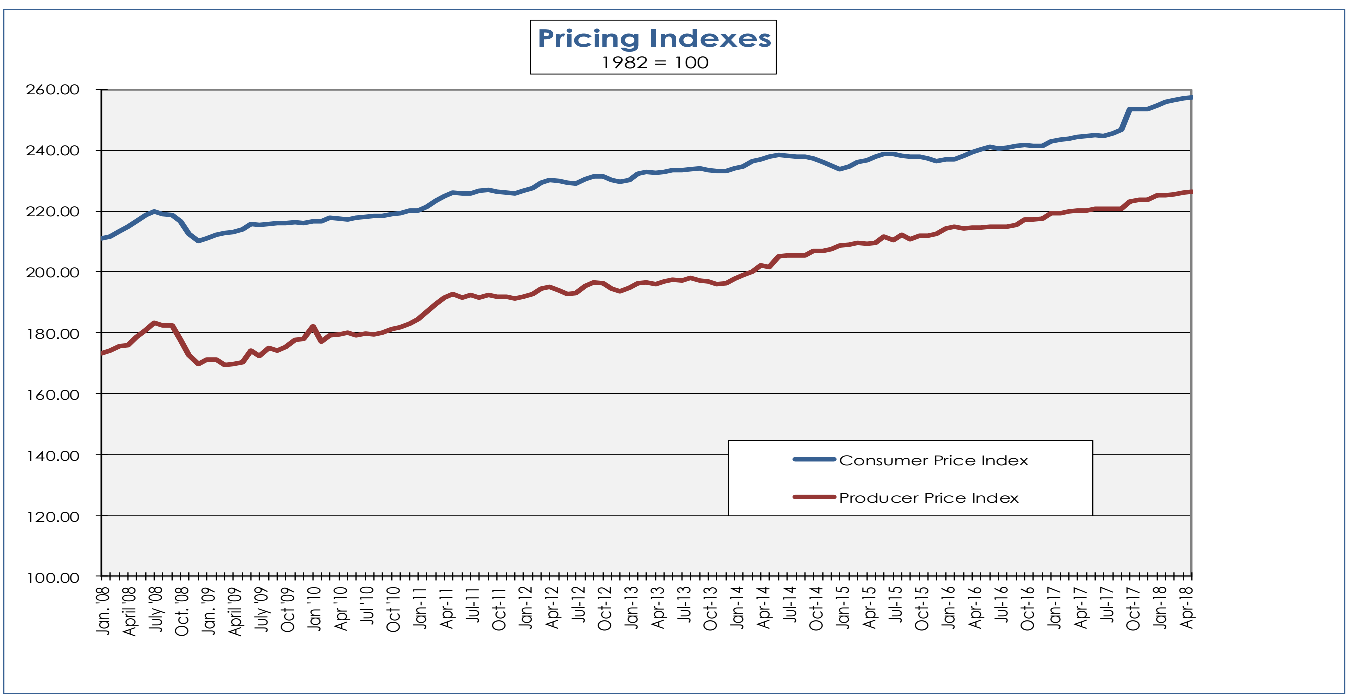
ECONOMIC UPDATE

With the second rate hike of the year imminent, it is worth taking stock of what's changed since the last FOMC statement. First, growth looks healthier: rising consumer spending in the wake of tax reform and a soft first quarter should boost 2Q18 GDP growth, potentially north of 4%. Second, the labor market is tighter: the spread between job openings and the number of unemployed persons is the widest in history, and the unemployment rate has fallen to a multi-decade low. And third, this week's CPI report should confirm that inflation continues to firm.

Jobless Claims - In the week ending June 2, the advance figure for seasonally adjusted initial claims was 222,000, a decrease of 1,000 from the previous week's revised level. The previous week's level was revised up by 2,000 from 221,000 to 223,000. The 4-week moving average was 225,500, an increase of 2,750 from the previous week's revised average. The previous week's average was revised up by 500 from 222,250 to 222,750. Total nonfarm payroll employment increased by 223,000 in May, and the **unemployment rate** edged down to 3.8 percent. Employment continued to trend up in several industries, including retail trade, health care, and construction.



The **Conference Board Consumer Confidence Index®** increased in May, following a modest decline in April (after a downward revision). The Index now stands at 128.0 (1985=100), up from 125.6 in April. The Present Situation Index increased from 157.5 to 161.7, while the Expectations Index improved from 104.3 last month to 105.6 this month.



In May, the **Consumer Price Index** for All Urban Consumers increased 0.2 percent seasonally adjusted; rising 2.8 percent over the last 12 months, not seasonally adjusted. The index for all items less food and energy rose 0.2 percent in May (SA); up 2.2 percent over the year (NSA). The **Producer Price Index** for final demand rose 0.5 percent in May, as the index for final demand goods advanced 1.0 percent, and prices for final demand services moved up 0.3 percent. The final demand index increased 3.1 percent for the 12 months ended in May.