In this month's recap: Stocks, gold, and oil all surge, a door opens for U.S.-China trade talks to resume, and the Federal Reserve suddenly sounds dovish.

Monthly Economic Update

Presented by Jason Palmer, July 2019

THE MONTH IN BRIEF

You could say June was a month of highs. The S&P 500 hit another record peak, oil prices reached year-to-date highs, and gold became more valuable than it had been in six years. (There was also a notable low during the month: the yield of the 10-year Treasury fell below 2%.) Also, a door opened to further trade talks with China, and the latest monetary policy statement from the Federal Reserve hinted at the possibility of easing. For most investors, there was much to appreciate.[1]

DOMESTIC ECONOMIC HEALTH

On June 29, President Trump told reporters, gathered at the latest Group of 20 summit, that he and Chinese President Xi Jinping were planning a resumption of formal trade negotiations between their respective nations. Additionally, President Trump said that the U.S. would refrain from imposing tariffs on an additional $300 billion of Chinese goods for the "time being." A six-week stalemate in trade talks had weighed on U.S. and foreign stock, bond, and commodities markets in May and June.[2]

The Federal Reserve left the benchmark interest rate alone at its June meeting, but its newest policy statement and dot-plot forecast drew considerable attention. Among seventeen Fed officials, eight felt rate cuts would occur by the end of the year, eight saw no rate moves for the rest of the year, and just one saw a 2019 hike. The policy statement also removed reference to the Fed being "patient" about its stance on interest rates, and it mentioned economic and political "uncertainties" that may affect its near-term outlook. Stocks climbed after the announcement, and futures traders saw increased chances of a rate adjustment in either the third or fourth quarter.[3]

Fed Chairman Jerome Powell also moved the market on two other occasions during June. On June 4, stocks had their best day since January after he noted that the Fed was keeping a close eye on trade and tariff issues and would "act as appropriate to sustain the expansion" of the economy. Stocks had their poorest day of the month on June 25 after Powell commented that there was no need to "overreact" to a "short-term swing in sentiment" or incoming data.[4,5]

Some of the latest data seemed to hint at economic deceleration. The much-watched Institute for Supply Management Purchasing Managers Index (PMI) for the factory sector fell to a 19-month low of 52.1 in May. The latest Consumer Price Index showed less inflationary pressure; it had advanced 1.8% in the 12 months ending in May, falling short of the Fed's 2% target. The annualized pace of wholesale inflation dropped from 2.2% in April to 1.8% in May. Perhaps, most importantly, the economy added only 90,000 net new jobs in May, down from 205,000 a month before. (The main unemployment rate stayed at 3.6%; the U-6 rate, a broader measure which includes the underemployed and those who have dropped out of the job market, descended 0.2% to 7.1%.)[6,7]

Additionally, consumer confidence slipped. The Conference Board's monthly index went from 131.3 in May to 121.5 in June (admittedly, the index had climbed higher for three consecutive months). The University of Michigan's Consumer Sentiment Index treaded water, ending June 0.3 points above its previous reading.[8,9]

There were also encouraging signs, however. Retail sales rose 0.5% in May, according to the Census Bureau, and the Department of Commerce recorded a healthy 0.4% May advance for personal spending. The ISM's nonmanufacturing PMI rose 1.4 points to 56.9 in May.[7,9]

Early in the month, it seemed that trade negotiations between China and the U.S. were stalled. At the start of the month, President Trump proposed assessing tariffs on $300 billion more of Chinese imports (and he also talked of imposing a 10% tariff on all imported goods from Mexico, though this did not happen in June). Some optimism returned for investors when a meeting between President Trump and Chinese President Xi Jinping was scheduled for the month-ending Group of 20 summit in Japan.[8]

GLOBAL ECONOMIC HEALTH

Away from America, concerns about an economic slowdown grew. The central banks of Australia, Chile, India, and Russia all cut interest rates in June, in an effort to stimulate the economies of their respective nations. This was the widest wave of easing seen since the first half of 2016. Word came that IHS Markit's Global Purchasing Managers Index, a respected barometer of worldwide factory activity, fell to 49.8 in May – an indication that global manufacturing was contracting. It was the weakest reading for the index in seven years. Markit factory PMIs for

China, South Korea, the United Kingdom, and Germany were all soft enough to indicate less activity in May.[6,10]

Markets in Europe benefited from comments by European Central Bank President Mario Draghi, who said that he was prepared to loosen monetary reins in order to stimulate lethargic economies of member nations within the European Union. Economists polled by Bloomberg believe that the ECB will cut its deposit rate to -0.5% during the third quarter.[11]

This month, the United Kingdom will elect a new parliamentary leader. Former U.K. foreign secretary Boris Johnson and current U.K. foreign secretary Jeremy Hunt will face off, with the winner announced on July 23. Johnson is currently seen as the favorite, and he has pledged that the U.K. will make its Brexit from the European Union by Halloween, even without a deal. Analysts think his vow could lead to a fall impasse in Parliament, if the E.U. fails to agree to whatever new deal the U.K. proposes.[12]

WORLD MARKETS

Several benchmarks recorded June gains of 3% or better. Argentina's often-volatile Merval jumped 18.72%, the MSCI World index surged 6.46%, Russia's Micex rose 5.98%, and the MSCI Emerging Markets index gained 5.70%. Next in line, Singapore's STI rose 4.94%. Brazil's Bovespa added 4.75%; Taiwan's TWSE, 4.34%; France's CAC 40, 4.26%; Hong Kong's Hang Seng, 4.21%. South Korea's Kospi advanced 3.99%, while Germany's DAX rose 3.09%. June also brought a 2.37% gain for China's Shanghai Composite.[13,14]

India's Nifty 50 and BSE Sensex were notable June outliers. The Nifty lost 1.17%, and the Sensex declined 0.89%.[13]

COMMODITIES MARKETS

Oil and gold certainly grew more valuable in June. As tensions heightened between the U.S. and Iran, West Texas Intermediate crude oil surged 9.07%, finishing June at $58.20 a barrel on the New York Mercantile Exchange. Gold gained 8.20% in June, rising to a June 28 settlement of $1,412.50 per ounce on the NYMEX.[15]

Four other important commodities gained at least 5% last month. Unleaded gasoline advanced 5.61%; platinum, 5.50%; heating oil, 5.32%; silver, 5.02%. Silver finished June at a NYMEX price of $15.27.[15]

Other June gains: wheat, 4.41%; sugar, 3.55%; copper, 2.69%; coffee, 2.52%; soybeans, 2.50%; cocoa, 1.83%. June retreats: corn, 1.11%; U.S. Dollar Index, 1.45%; cotton, 3.07%; natural gas, 6.01%.[15,16]

REAL ESTATE

Mortgage rates fell in June. By the June 27 edition of the Freddie Mac Primary Mortgage Market Survey, the average interest on a 30-year, fixed-rate home loan was 3.73%, compared with 3.99% on May 31. Rates for 15-year, fixed loans also descended in this timeframe, from 3.46% to 3.16%.[17]

30-year and 15-year fixed rate mortgages are conventional home loans generally featuring a limit of $484,350 ($726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance is required for any conventional loan with less than a 20% down payment.

The latest data on home buying came from May. Existing home sales rose 2.5%, according to the National Association of Realtors – a nice change from the 0.4% decline in April. New home sales, unfortunately, slid 7.8% during May, and that followed a 3.7% April retreat.[7]

Home prices flattened in April, according to the S&P/Case-Shiller 20-City Composite Home Price Index. (Data for May arrives in July.) In year-over-year terms, prices were up 2.5%.[7]

Lastly, housing starts weakened 0.9% in May, according to the Census Bureau, but the pace of building permits issued increased 0.3%.[7]

TIP OF THE MONTH

*If you can **reduce** some of your fixed, monthly expenses in retirement, you may end up **withdrawing thousands of dollars less** from your **retirement savings** per year than you would have otherwise.*

LOOKING BACK, LOOKING FORWARD

On June 21, the S&P 500 reached a new all-time peak of 2,964.03 in intraday trading. That was a high note in a strong month for the index.[1]

The S&P surged 6.89% in June. The Dow Jones Industrial Average added 7.19%; the Nasdaq Composite, 7.42%. As the closing bell rang on the last market day of the month (June 28), the S&P settled at 2,941.76; the Nasdaq, at 8,006.24; the Dow, at 26,599.96.[18,19,20]

Prices of longer-term Treasuries rose in June, and correspondingly, their yields fell. On the first market day of the month (June 3), the yield on the 10-year note dipped under 2%; that had not happened since November 2016.[21]

All this greatly improved the year-to-date performance for these benchmarks. At the June 28 close, the S&P 500 was at +17.35% on the year; the Dow, +14.03%; the Nasdaq, +20.66%.[18,19,20]

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+14.03	+7.19	-5.63
NASDAQ	+20.66	+7.42	-3.88
S&P 500	+17.35	+6.89	-6.24

BOND YIELD	6/28 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	2.00	2.14	2.84

Sources: cnnbusiness.com, wsj.com, treasury.gov - 6/28/19[18,19,20,21,22]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

This month, the current U.S. economic expansion became the longest on record. The economy grew 3.1% in the first quarter, by the assessment of the Bureau of Economic Analysis; the BEA's initial estimate of Q2 economic growth is scheduled to appear July 26. The Federal Reserve's next monetary policy meeting concludes on July 31.[5,9]

QUOTE OF THE MONTH

*"**Be yourself**; everyone else is already taken."*

OSCAR WILDE

UPCOMING RELEASES

Here is the July schedule of news releases pertaining to fundamental economic and housing indicators: the June ADP employment change report and the June Institute for Supply Management nonmanufacturing index (7/3), the latest monthly employment snapshot from the Department of Labor (7/5), the latest Consumer Price Index (7/11), June retail sales (7/16), June construction activity (7/17), July's initial University of Michigan consumer sentiment index (7/19), June existing home sales (7/23), June new home sales (7/24), the first estimate of Q1 economic expansion from the federal government (7/26), June consumer spending, the July Consumer Confidence Index from the Conference Board, and June pending home sales (7/30), and last, but certainly not least, a new Federal Reserve monetary policy statement (7/31). (The final July University of Michigan Consumer Sentiment Index is slated for release on 8/2.)

THE MONTHLY RIDDLE

*There is a **five-letter word** that means "nice" in English, and all **four letters** used within this word are also **Roman numerals.** What is this word?*

LAST MONTH'S RIDDLE: What has several dozen keys, but cannot open one door?

ANSWER: A piano.

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