MADISON PARK
CAPITAL ADVISORS

Weekly Market Update

August 17, 2015

China, Again

The S&P 500 eked out a gain for the week, returning 0.7%. Global stocks, however, had a much rougher go of it, with European stocks faring the worst, rattled by China's surprise currency devaluation and the Eurozone's disappointing economic growth. Economic data in the U.S. was largely positive, allowing domestic markets to outshine their global counterparts.

Let us begin with the good news. U.S. retail sales recovered in July, rising 0.6%, and June's retail sales were revised up to flat from the previously reported 0.3% decrease. Households increased spending on automobiles and other goods. Core retail sales, excluding vehicles, gasoline, building materials and food services, rose 0.3% in July. June's core sales were revised up to a 0.2% gain from the original estimate of a 0.1% contraction.

Domestic industrial output increased 0.6% in July, the fastest pace in eight months. Factory production grew 0.8%, sparked by a 10.6% jump in motor vehicle output. U.S. small businesses were more confident in July than in June, which had marked a 15-month low in the National Federation of Independent Business's Small Business Optimism Index. With 7 of 10 index components rising in July, business owners anticipate strong sales and inventory growth over the next six months.

But then there is China, which continued to dominate global market headlines last week. On Monday, Chinese equities rallied as economic data showed a surge in energy and material imports. Tuesday, however, was another story as the government announced the largest Yuan devaluation in over 20 years of 1.9%, news that further deepened concerns of a broader economic slowdown. The reasoning behind the concern is that if a weaker, market-driven exchange rate is needed to boost Chinese exports, then China's economy must be sluggish enough to need the currency help.

As confirmation of the market's concern, China's imports declined 8.1% and exports

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fell 8.3% in July from a year earlier. Producer prices contracted 5.4% year over year, while consumer prices increased 1.6%. The rise in consumer inflation was driven almost entirely by rising food prices.

Last week we published our first Monthly Portfolio Commentary, in which Chris explained MPCA's portfolio process and the reasoning behind our continuing tactical overweight of U.S. stocks, virtually uninterrupted since June of 1010. To read the entire piece, **please click here**. The events of last week confirm for us, at least for the foreseeable future, that we are on the right track.

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