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Monthly Economic Update

August 2018

THE MONTH IN BRIEF

While investors kept tariffs and trade disputes in mind in August, a new earnings season provided Wall Street with a lift. Blue chips especially benefited: the Dow Jones Industrial Average rose 4.71% for the month. Broadly speaking, strong corporate profits and domestic economic data gladdened the bulls, even as question marks about global commerce flashed.¹

DOMESTIC ECONOMIC HEALTH

Was the federal government about to enlarge tariffs on Chinese imports or relax them? The month ended with conflicting signals. In late July, Bloomberg reported that the Trump administration was considering hiking the 10% import taxes, which it planned to impose on \$200 billion of Chinese-made goods this fall, to 25%. Yet as the month ended, representatives of the offices of Secretary of State Steven Mnuchin and Chinese Vice Premier Liu He were trying to rekindle trade negotiations, with the possibility of dropping these proposed tariffs.²

Two other developments concerning tariffs made headlines. On July 1, Canada acted to impose a 25% import tax on American steel products and a 10% import tax on assorted U.S. consumer, food, and agriculture exports coming through its borders. On July 25, President Trump and European Commission President Jean-Claude Juncker agreed to lower the respective industrial tariffs the U.S. and E.U. had announced and postpone others (such as the planned 25% U.S. tax on European-built autos) pending further talks.^{3,4}

A new report from the Department of Labor showed a net June gain of 213,000 jobs. That topped the 195,000 projected by Bloomberg's consensus forecast. Headline unemployment increased to 4.0% from 3.8% in June, while the U-6 rate, counting the underemployed, rose 0.2% to 7.8%, but those changes reflected the growth in the labor force participation rate. Wages were rising 2.7% a year at the end of the second quarter.⁵

Consumer costs, however, were increasing at 2.9% per year, according to the latest Consumer Price Index. That was the highest inflation rate seen since February 2012. Well beneath the headline number, the core CPI (which removes food and fuel prices) was up just 2.3%, annually, through June. The large difference between the two CPIs reflects the impact of a 30.8% year-over-year rise in the price of fuel oil and a 24.3% annualized gain for the cost of gasoline. (The June Producer Price Index showed yearly wholesale inflation running at 3.4%.)^{6,7}

The Institute for Supply Management's purchasing manager indices looked very strong as spring gave way to summer. In June, ISM's non-manufacturing PMI achieved a mark of 59.1, improving 0.5 points. The June and July readings for ISM's manufacturing PMI were also excellent: 60.2, then 58.1. Federal government reports showed durable goods orders increasing 1.0% in June; industrial output, 0.6%; manufacturing output, 0.8%.^{6,8}

On Main Street, consumer confidence held up even as households thought about the potential impact of tariffs on the economy. The Conference Board's index rose 0.3 points in July to 127.4, and the University of Michigan's barometer progressed from 97.1 in its preliminary July edition to a final July mark of 97.9.⁶

Fresh Department of Commerce data showed consumers spending at a healthy rate at the end of spring. Personal spending was up 0.4% in June, with overall retail sales advancing 0.5%; all this was helped by a gain of 0.4% for personal incomes.⁶

GLOBAL ECONOMIC HEALTH

China announced moves last month to try and ward off the potential economic impact of U.S. tariffs and to stimulate an economy that had slowed slightly to 6.7% growth during the second quarter. Its central bank poured the equivalent of \$74 billion U.S. into its financial system in June, a record. Its government announced a new round of bonds to facilitate localized upgrades in infrastructure and forthcoming tax cuts. Its foreign ministry denied accusations of currency manipulation to stimulate exports. Southeast Asia's largest economies were still projected for healthy growth in 2018, in some cases matching that of the P.R.C. A median forecast from Bloomberg puts Indonesia's 2018 GDP at 5.3%; Malaysia, 5.5%; Singapore, 3.1%; Thailand, 4.2%; Vietnam, 6.8%; the Philippines, 6.7%.^{9,10}

What if the Brexit occurred without any deal defining how the European Union and the United Kingdom could continue to do business? That troubling question was on many minds in Europe in July. U.K. Prime Minister Theresa May publicly stated back in 2017 that "no deal for Britain is better than a bad deal for Britain," and the E.U. has been advising corporations and governments to prepare for the possibility of a "hard" Brexit. A "no-deal" Brexit is a real risk, with the customs border between Northern Ireland (part of the U.K.) and Ireland (part of the E.U.) as the major sticking point. The Netherlands, Belgium, and the U.K. have begun to stockpile cash and resources in case of potential economic shortages or hardships caused by a trade chasm. The projected date for the Brexit is March 29, 2019, but it could be postponed. Fifty-one percent of U.K. respondents to a July Sky News poll felt the Brexit was a bad move for the country, and 78% felt May's government was doing a poor job of negotiating the separation.^{11,12}

WORLD MARKETS

Was July also a good month for foreign shares? Largely speaking, yes. India's major indices and two South American benchmarks made the most dramatic gains. The Sensex advanced 6.16%; the Nifty 50, 5.99%. Brazil's Bovespa topped both with a climb of 8.88%, while Argentina's Merval jumped 12.27%. Mexico's Bolsa advanced 4.27%. Speaking of emerging markets, the MSCI Emerging Markets index added 1.68%, while the MSCI World index improved 3.05% in July.^{13,14}

In Europe, the German DAX rose 4.06%. France's CAC 40 ascended 3.53%, while the FTSE Eurofirst 300 gained 3.19%. The United Kingdom's FTSE 100 posted a 1.46% July advance, and Russia's Micex improved 1.10%. Looking at the Asia-Pacific region, Taiwan's TSE 50 rose 4.28%; Australia's All Ordinaries, 1.22%; the Nikkei 225, 1.12%; the Shanghai Composite, 1.02%. Hong Kong's Hang Seng slipped 1.29%; South Korea's Kospi, 1.33%. To our north, Canada's TSX Composite gained 0.96%.¹³

COMMODITIES MARKETS

As stocks attracted investors during a solid earnings season, commodities lost some appeal. All the major energy futures declined across July, along with the four key metals. Oil closed the month at \$68.43 on the NYMEX, taking a 7.84% loss. Unleaded gasoline dipped 4.85%; natural gas, 4.93%; heating oil, 3.19%. Copper stumbled 4.48% in July; silver, 3.18%; gold, 2.28%; platinum, 1.28%. COMEX gold was worth \$1,223.10 an ounce at the close on July 31; COMEX silver, \$15.54 an ounce. The U.S. Dollar Index added just 0.01% during July.^{1,15}

Some crops did post big gains, while others fell hard. July winners included wheat at +11.57%, corn at +6.36%, cotton at +5.61%, and soybeans at +5.25%. Among the losers: coffee at -2.44%, sugar at -8.77%, and cocoa at -12.88%.¹⁵

REAL ESTATE

New reports from the National Association of Realtors and Census Bureau showed home sales weakening in June. The slip in resales was minor: just 0.6%. It was, however, the third consecutive monthly retreat for existing home purchases; in spring, they slowed to a pace unseen since January. Some good news emerged to counter this: the NAR's pending home sales index rose 0.9% in the sixth month of the year. New home buying fell off 5.3% during June; the May gain was revised to 3.9%.^{6,16}

Home values continued their healthy appreciation. The latest 20-city S&P CoreLogic Case-Shiller index showed home prices up 6.5%, year-over-year, through May. Prospective buyers could take heart in the fact that mortgage rates were little changed in late July from where they were in late June. Freddie Mac's Primary Mortgage Market Survey from June 26 listed the mean interest rate on the 30-year FRM at 4.55%, the mean rate on the 15-year FRM at 4.04%, and the average interest rate for the 5/1-year ARM at 3.87%; in the July 26 PMMS, the respective numbers were 4.54%, 4.02%, and 3.87%.^{6,17}

The last month of the second quarter also witnessed less groundbreaking. In June, developers made 12.3% fewer housing starts and arranged 2.2% fewer building permits than in May, according to the Census Bureau.⁶

LOOKING BACK... LOOKING FORWARD

The Dow Jones Industrial Average and S&P 500 managed to catch up a little versus the Nasdaq Composite in July. Blue chips rose 4.71%, the S&P advanced 3.60%, and the Nasdaq improved 2.15% for the month. The Russell 2000 was not far behind in terms of performance, rising 1.69%. If it seemed that July was not all that volatile, the CBOE VIX's performance will confirm your assumption; Wall Street's top gauge of market instability fell 20.26% across July to 12.83, but remained up 16.21% YTD.^{1,18}

The Nasdaq, Dow, Russell, and S&P are all firmly in the green for 2018 at this date. As the closing bell rang on July 31, their year-to-date numbers were as follows: DJIA, +2.82%; S&P, +5.34%; COMP, +11.13%; RUT, +8.81%. When that trading session ended, the four benchmarks settled at these levels: DJIA, 25,415.19; COMP, 7,671.79; S&P, 2,816.29; RUT, 1,670.80.^{1,18}

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	2.82	16.10	12.79	12.34
NASDAQ	11.13	20.85	22.31	23.00
S&P 500	5.34	14.01	13.41	12.22

REAL YIELD (%)	7/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.84	0.48	0.38	1.65

Sources: barchart.com, bigcharts.com, treasury.gov - 7/31/18^{1,19,20,21}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

The second half of the year started with some promise: earnings and fundamentals largely came through and brightened the mood of investors contending with unanswered questions about global trade. July was the S&P 500's fourth straight

winning month, and 2018 is the twelfth year in the past 90 years in which the S&P has had an April-July win streak. In all previous 11 years featuring such a streak, the S&P advanced across the rest of the year. Will history repeat in 2018? Maybe not, but 11 for 11 is certainly encouraging. A strong finish to 2018 is by no means assured, as trade and diplomatic concerns, probable Federal Reserve rate hikes, and perhaps even a slowing U.S. business cycle cloud the horizon. The market will also exit earnings season this month, and that may leave less for investors to get excited about. Late-summer doldrums could certainly overtake Wall Street, but that does not rule out the possibility of a bullish fourth quarter.²²

QUOTE OF THE MONTH

“Drive thy business or it will drive thee.”

BENJAMIN FRANKLIN

UPCOMING RELEASES

What will investors pay attention to across the rest of August, in addition to the remaining earnings calls? They will look at the latest jobs report from the Department of Labor and ISM’s newest non-manufacturing PMI (8/3), the July PPI (8/9), the July CPI (8/10), July retail sales and industrial output (8/15), the Census Bureau’s latest snapshot of residential construction activity (8/16), the initial August University of Michigan consumer sentiment index and the Conference Board’s July leading indicators index (8/17), the NAR’s July existing home sales report (8/22), the Census Bureau’s latest new home sales announcement (8/23), July hard goods orders (8/24), a new Conference Board consumer confidence index (8/28), the second estimate of Q2 economic expansion and the NAR’s report on July pending home sales (8/29), July consumer spending figures and the July PCE price index (8/30), and lastly, the final August University of Michigan consumer sentiment index (8/31).

Know someone who could use information like this?

Please feel free send me their contact information via phone or email. (Don’t worry – I’ll request their permission before adding them to my mailing list.)

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market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The Nifty 50 (NFTF 50) is a well-diversified 50-stock index accounting for 13 sectors of the Indian economy. It is used for a variety of purposes such as benchmarking fund portfolios, index-based derivatives and index funds. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Merval Index (Mercado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The DAX 30 is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalisation in the FTSE Developed Europe Index. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The MICEX 10 Index is an unweighted price index that tracks the ten most liquid Russian stocks listed on MICEX-RTS in Moscow. The FTSE TWSE Taiwan 50 Index consists of the largest 50 companies by full market value and is also the first narrow-based index published in Taiwan. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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