

WEEKLY ECONOMIC UPDATE

August 14, 2017

WEEKLY QUOTE

“We are what we pretend to be, so we must be careful what we pretend to be.”

- Kurt Vonnegut, Jr.

WEEKLY TIP

The investment markets experience cycles, and the major indices inevitably see downturns at some point. If you are focused on long-term performance, the good news is that the markets have the potential to rebound in reasonable time. If your portfolio is diversified, that may provide you with some insulation in a correction.

WEEKLY RIDDLE

Shake me, and I'll do what you want, but first you must extract me from the earth. I may be on the tip of your tongue and over your shoulder. What am I?

Last week's riddle:

What is the only type of “worm” that will never risk ending up on a hook?

Last week's answer:

A bookworm.

TAME INFLATION PERSISTS

Can the Federal Reserve justify another interest rate hike in the second half of 2017? Given weak inflation pressure, maybe not. The central bank has set a 2% yearly inflation target, but the Consumer Price Index rose only 0.1% in July, resulting in a 1.7% year-over-year gain. Core consumer prices rose 0.1% for a fourth consecutive month in July, so annualized core inflation was also at 1.7%. The Producer Price Index fell 0.1% last month; analysts polled by Briefing.com expected a 0.2% rise.^{1,2}

ANALYSIS: EARNINGS GROW AT A 10% PACE

More than 90% of companies in the S&P 500 have now reported second-quarter results. FactSet, the respected financial analytics firm, now projects a blended earnings growth rate of 10.2% for the S&P 500 for the second quarter, along with a 5.1% blended sales growth rate. S&P component firms generating less than 50% of their sales outside the U.S., however, are set to record 14.0% blended earnings growth and 6.0% blended revenue growth.³

THE PRICE OF GOLD RISES

At Friday's close, the yellow metal hit a 2-month high of \$1,294.00 on the COMEX as investors looked away from equities. Gold gained 2.3% on the week.⁴

TURBULENCE FOR WALL STREET

Diplomatic tensions sent stocks lower last week. Across August 7-11, the Dow Jones Industrial Average declined 1.06% to 21,858.32; the S&P 500, 1.43% to 2,441.32; the Nasdaq Composite, 1.50% to 6,256.56. Volatility certainly came back: the CBOE VIX jumped 53.44% to end the week at 15.39.⁵

THIS WEEK: On Monday, Cumulus Media and Sysco report quarterly results. Tuesday brings July retail sales numbers and earnings from Advance Auto Parts, Agilent, Coach, Dick's Sporting Goods, Home Depot, TJX, and Urban Outfitters. On Wednesday, minutes from the July Federal Reserve policy meeting appear; Wall Street will also interpret a report on July housing starts and building permits and earnings news from Cisco, L Brands, NetApp, Stein Mart, and Target. Fresh reports on initial jobless claims and industrial production roll in Thursday, complemented by earnings from Alibaba Group, America's Car-Mart, Applied Materials, Bon-Ton Stores, Gap, Ross Stores, Sportsman's Warehouse, Stage Stores, and Walmart. Friday, investors consider earnings from Deere & Co. and Estee Lauder and the preliminary August consumer sentiment index from the University of Michigan.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+10.60	+17.43	+13.10	+6.51
NASDAQ	+16.23	+19.66	+21.42	+14.58
S&P 500	+9.04	+11.69	+14.73	+6.79
REAL YIELD	8/11 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.40%	0.10%	-0.60%	2.56%

Sources: wsj.com, bigcharts.com, treasury.gov - 8/11/17^{5,6,7,8}

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.

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