



# WEALTH NEWS

Market Recap for the Week Ending 07/20/2018

By Bruce Konners, CPA, CFA, PFS

[bruce@bluekeypwp.com](mailto:bruce@bluekeypwp.com)

## HIGHLIGHTS

- Solid earnings helped US equities to a small gain of 0.1%. International stocks were up 0.37%.
- Powell comments on free trade and then Trump fires back on interest rates.
- Higher US trade deficits might be on the way.
- Currency valuations are now in the spotlight as the yuan is falling.

## MARKET RECAP

Strong corporate earnings helped offset trade and currency concerns as US equities managed a small gain of 0.1%. International stocks did better, up 0.37%. Of the 75 S&P 500 companies that reported earnings, 71 beat forecasts. Looking forward, analysts are still revising earnings forecasts higher for 2018, 2019 and 2020. And those strong earnings are powering this market, at least for now, despite concerns about the trade war. Earnings projections have been revised up over the last quarter (13-weeks) by 1.92%, 1.90%, and 1.58% respectively, per Thomson Reuters.

## FED CHAIRMAN POWELL ON TRADE

In Congressional testimony, Fed Chairman Jerome Powell said the following regarding tariffs, *"In general, countries that have remained open to trade that haven't erected barriers including tariffs have grown faster, they've had higher incomes, higher productivity. And countries that have, you know, gone in a more protectionist direction have—have done worse."*

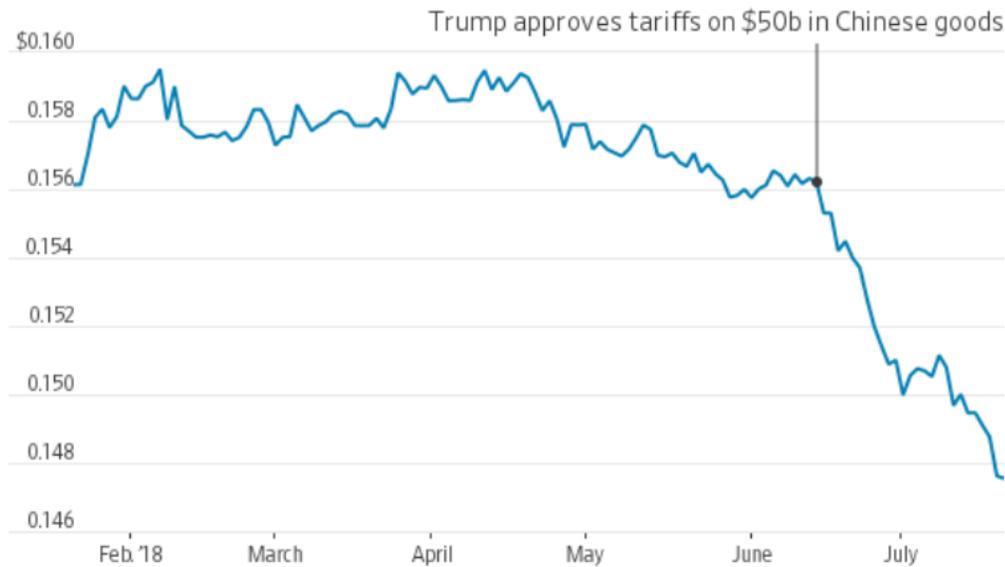
Trump then criticized Powell, saying that raising short-term interest rates will hurt the US economic expansion. Traditionally, presidents have refrained from speaking about monetary policy. If Trump is worried about hurting the economic expansion, he should first look at this trade policies, but conveniently, he is setting up Powell to be the fall guy if the economy begins to slow.

## CURRENCY WAR NEXT?

As we wrote a couple weeks back, "beware the law of unintended consequences." Here are a couple to start - a higher US trade deficit and currency wars. Rising US interest rates, the beginning of the trade war, and slowing Chinese growth have been pushing the value of the Chinese yuan down. Over the last month, the yuan has fallen about 5% against the dollar. The weaker yuan offsets some of the impact of U.S. tariffs by making Chinese goods cheaper in the U.S. and U.S. goods more expensive in China., the result might be a higher trade deficit with China. The exact opposite of the intended impact of the U.S. tariff policy.

As the yuan has dropped, there was little sign that China's central bank intervened to help halt or slow the slide, so Trump accused China as well as Europe of "manipulating their currencies and interest rates lower." Jens Nordvig, a currency strategist at Exante Data said, "The real risk is we have a broad-based unraveling of global trade and currency cooperation, and that is not going to be pretty." Nordvig fears the trade war will shift to a currency war.

### How many U.S. dollars to buy 1 yuan



Source: Tullett Prebon Information

WSJ / Real Time Economics / 7/20/2018

## SCOREBOARD

BlueKey Personal Wealth Planning Scoreboard / bluekeywp.com						
PERFORMANCE	VTI	SPY	VXUS	AGG	BUXX	CL1:COM
7/20/2018	US Market	SP500	Intl (x-US)	Bonds	US\$	Crude
Week	0.10%	0.06%	0.37%	-0.23%	-0.18%	-3.87%
July 2018	3.14%	3.09%	1.29%	0.17%	0.24%	-7.94%
June 2018	0.70%	0.58%	-2.14%	0.10%	1.15%	10.61%
May 2018	2.72%	2.43%	-1.64%	0.66%	1.67%	-2.23%
April 2018	0.45%	0.52%	0.46%	-0.94%	2.21%	5.59%
March 2018	-1.95%	-2.74%	-0.38%	0.67%	-0.52%	5.35%
February 2018	-3.76%	-3.64%	-5.24%	-1.01%	1.17%	-4.77%
January 2018	5.23%	5.64%	5.72%	-1.13%	-3.19%	7.13%
2018 Q3	3.14%	3.09%	1.29%	0.17%	0.24%	-7.94%
2018 Q2	3.91%	3.55%	-3.30%	-0.18%	5.11%	14.18%
2018 Q1	-0.70%	-1.00%	-0.21%	-1.47%	-2.59%	7.48%
2018 YTD	6.45%	5.75%	-2.27%	-1.50%	2.63%	12.98%
2017	21.21%	21.70%	27.45%	3.61%	-7.81%	12.47%
2016	12.83%	12.00%	4.81%	2.41%	2.41%	33.48%
2015	0.36%	1.25%	-4.19%	0.48%	7.19%	-29.70%
2014	12.54%	13.46%	-4.74%	6.00%		-43.92%
2013	33.45%	32.31%	14.61%	-1.98%		0.47%

All returns include dividends. CL1:Com is the WTI Crude Generic 1st Future/Bloomberg, BUXX is the WSJ Dollar Index.

RATES	2-YR	5-YR	10-YR	30-YR	2-10	HY OAS
7/20/2018	2.60%	2.77%	2.89%	3.03%	0.29%	3.61%
7/13/2018	2.59%	2.73%	2.87%	2.99%	0.28%	3.61%
6/29/2018	2.52%	2.73%	2.85%	2.98%	0.33%	3.64%
12/29/2017	1.89%	2.20%	2.40%	2.74%	0.51%	3.55%
12/29/2017	1.89%	2.20%	2.40%	2.74%	0.51%	3.55%
Δ for Week*	1.00	4.00	2.00	4.00	1.00	0.00
Δ for Month*	8.00	4.00	4.00	5.00	(4.00)	(3.00)
Δ for Quarter*	8.00	4.00	4.00	5.00	(4.00)	(3.00)
Δ YTD*	71.00	57.00	49.00	29.00	(22.00)	6.00

\*Δ is measured in basis points; 2-10 refers to the spread between the 10 & 2-yr bonds.

HY OAS - Merrill Lynch US High Yield Option-Adjusted Spread.

Year	Earnings	SPX	P/E
2020 Estimate	193.68	2,801.83	14.47
2019 Estimate	177.34	2,801.83	15.80
2018 Estimate	161.23	2,801.83	17.38
2017	132.00	2,604.47	19.73
2016	118.10	2,238.83	18.96
2015	117.46	2,043.94	17.40
2014	118.78	2,058.90	17.33
2013	109.68	1,848.36	16.85
2012	103.80	1,426.19	13.74
2011	97.82	1,257.60	12.86
2010	85.28	1,257.64	14.75
2009	60.80	1,115.10	18.34
2008	65.47	903.25	13.80
2007	85.12	1,468.36	17.25
2006	88.18	1,418.30	16.08
2005	76.25	1,248.29	16.37
2004	67.10	1,211.92	18.06

The SPX (S&P 500) price is as of year-end for the period indicated except for the current year and next year which show the SPX price as of Friday. All earnings and estimates are per Thomson Reuters I/B/E/S as of the current month. Remember the p/e for this year and future years are based on forward ESTIMATES, whereas past years p/e were calculated based on trailing earnings. Also, forward estimates are usually revised downward over time.

ECONOMY	GDPNow	NowCast	MA**	BEA*
Q3 2018 Estimate		2.38%		
Q2 2018 Estimate	4.50%	2.69%	5.30%	
Q2 2018 Δ for Week	0.60%	-0.08%	0.00%	
Q2 2018 Δ for QTR	0.70%	-0.10%	0.00%	
Q1 2018 ESTIMATE	2.30%	2.97%		2.00%
Q4 2017	3.40%	3.88%		2.90%
Q3 2017	2.50%	1.60%		3.20%
Q2 2017	2.80%	2.09%		3.10%

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**Past performance does not guarantee future results.**

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