MADISON PARK
CAPITAL ADVISORS

# WEEKLY MARKET UPDATE

*August 15, 2016*

## Soft Economic Data, All Eyes Still on the Fed

Equity markets hovered near record-highs and were little changed last week as investors turn their attention to economic data as earnings season nears the end. Better-than-expected earnings and continued optimism the Federal Reserve will remain supportive have led to a series of record-highs for the S&P 500 over the past month. Key economic data points this week include the release of the Federal Reserve's minutes from July, housing data, and U.S. consumer prices.

Domestic retail sales were unchanged in July, a worrisome sign for an economy being held aloft solely by consumer consumption. An unexpected 0.4% drop in the Producer Price Index reinforces the notion that despite robust labor markets, the US Federal Reserve will stay on the monetary sidelines for some time to come.

As if on cue, Fed governor Jerome Powell, in an interview with the Financial Times, said that with inflation below target, the Fed can be patient on raising rates. He argued for a very gradual path of rate hikes given that the US economic outlook is still dogged by global risks. The interview was conducted before Friday's stronger than expected jobs report.

After a dreadful first-quarter earnings seasons, major US retailers posted better-than-expected results this week, sending their battered share prices higher. The figures posted by the industry were not particularly strong, but they did exceed downbeat forecasts. Macy's gained over 16% for the week as the department store announced plans to shutter about 100 of their 728 locations and same-store-sales declined by 2%, better than the 4.6% drop expected by analysts. Shares of local favorite Nordstrom also surged for the week, helped by its anniversary sale and off-price channel The Rack.

Thoughtful investors may be excused for experiencing cognitive dissonance as they wrestle with conflicting data points these days. For example, the US Department of Labor reported that productivity has fallen for three straight quarters, the longest slump in output per worker since 1979. Falling productivity is raising concerns, shared by Madison Park Capital Advisors, about corporate profits and the pace of future hiring. Yet stocks continue to party like it's 1999, as all three major US equity indices closed at record highs on Thursday. The Nasdaq Composite Index joined the Dow Jones Industrial Average and the S&P 500

Index in record territory. And, yes, that is the first time that has happened since, well, 1999.

For the 674th time since Lehman collapsed, a top 50 central bank cut interest rates, according to the Financial Times. The latest came from the Reserve Bank of New Zealand, which trimmed its official cash rate 25 basis points to 2.0%. Many had expected a deeper 50 basis point cut, so the New Zealand dollar soared on the news, hitting a one-year high.

And finally, it came as no shock that the European Union, citing exceptional circumstances, waived fines for Spain and Portugal after the two countries exceeded EU budget deficit caps. France received a similar waiver last year. The repeated bending of fiscal rules calls into question the EU's credibility on budget matters. New deadlines to reach the EU's 3.0 deficit-to-GDP limit have been set for both nations. MPCA will take the bet that those deadlines will be extended yet again down the road.

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