



WEALTH NEWS

Market Recap for the Week Ending 08/17/2018

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HIGHLIGHTS

- US and international stocks continue in different directions, US +0.63% and international down 0.80%.
- Leveraged loans might be a fault line in the next recession.
- Retailers report good results.

MARKET RECAP

US equities were up by 0.63% for the week but that hid some wild swings. Stocks fell hard on Wednesday, worries about Turkey and falling commodity prices spooked markets, at the low point equities were down by 1.37%, but they rallied into the close and finished off by 0.79%. A Thursday rally made up for most of the loss, stocks increased by 0.78%. The Dow had its biggest increase in four months, up by 1.58%. The rally was spurred by word that there would be a resumption of trade talks between the US and China later in the month. Solid retail earnings reports (see below) also helped.

As it stands now, the S&P 500 is just 0.80% off its all-time high. International stocks fell again, down 0.97% on the week and they are now down almost 5% for the year. Emerging market stocks have fallen even more, down about 10%. The Vanguard Emerging Markets Index Fund (VWO) sells at a forward price to earnings ratio of 12.5 and there are value-oriented emerging markets funds that now sell at a forward ratio of less than eight.

LEVERAGED LOANS

Leveraged loans might be the fault line that cracks in the next recession. The popularity of the loans has increased in recent years given their ability to protect investors in a rising rate environment. But the loans, which investors effectively invest in through popular ETFs and mutual funds, present a potential mismatch if investors begin to sell their positions faster than the loans can be liquidated. Selling a loan is not the same as selling a stock or a treasury bond. Another problem is the loans being marketed now do not have as many covenants as in past years. That means that in the event of bankruptcy, the loans are protected by fewer assets than was traditional in the past.

Moody's estimates future recoveries at 32% versus 40% in the past.

For the time being, the economy remains strong, but leveraged loans could become a problem down the road.

RETAILERS REPORT GOOD RESULTS

Solid results by Walmart, Nordstrom and other retailers indicate the economy remains strong. A combination of tax cuts and rising wages have helped sales rise at Walmart, Nordstrom, Home Depot and Coach. Walmart's

sales in the last quarter increased by the most in over a decade. Walmart's e-commerce sales were up by 40%. But not all is perfect, sales at Macy's were up just 0.5% and they were down at JC Penny.

JOBLESS CLAIMS

New unemployment claims fell by 2,000 to 212,000 indicating a continued strong labor market.

SCOREBOARD

PERFORMANCE	VTI	SPY	VXUS	AGG	BUXX	CL1:COM
8/17/2017	US Market	SP500	Intl (x-US)	Bonds	US\$	Crude
Week	0.63%	0.67%	-0.97%	0.22%	-0.37%	-2.54%
August 2018	1.43%	1.33%	-3.91%	0.85%	1.71%	-4.14%
July 2018	3.32%	3.89%	2.55%	-0.03%	0.30%	-7.27%
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	4.80%	5.06%	-1.46%	0.59%	2.01%	-11.11%
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	8.16%	7.77%	-4.93%	-1.10%	4.44%	9.09%
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
8/17/2017	2.61%	2.75%	2.87%	3.03%	0.26%	3.49%
8/10/2018	2.61%	2.75%	2.87%	3.03%	0.26%	3.37%
7/31/2018	2.67%	2.82%	2.96%	3.08%	0.29%	3.46%
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*	0.00	0.00	0.00	0.00	0.00	12.00
Δ for Month*	(6.00)	(7.00)	(9.00)	(5.00)	(3.00)	3.00
Δ for Quarter*	(6.00)	(7.00)	(9.00)	(5.00)	(3.00)	3.00
Δ YTD*	72.00	55.00	47.00	29.00	(25.00)	(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	195.29	2,850.13	14.59
2019 Estimate	178.65	2,850.13	15.95
2018 Estimate	162.23	2,850.13	17.57
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	4.30%	2.39%	2.90%	
Q3 2018 Δ for Week	0.00%	-0.18%	0.00%	
Q3 2018 Δ for QTR	-0.10%	-0.07%	0.00%	
Q2 2018 Estimate	3.80%	2.78%	5.30%	4.10%
Q1 2018	2.30%	2.97%		2.20%
Q4 2017	3.40%	3.88%		2.90%
Q3 2017	2.50%	1.60%		3.20%
Q2 2017	2.80%	2.09%		3.10%
Q1 2017	0.20%	2.70%		1.40%
Q4 2016	2.90%	2.10%		2.10%
Q3 2016	2.10%	2.20%		3.50%
Q2 2016	1.80%	2.10%		1.40%
Q1 2016	0.60%	0.72%		0.80%

*Bureau of Economic Analysis **Macroeconomic Advisers

TREND	VTI	SPY	VXUS	AGG
1-Year	Up	Up	Up	Down
6 Months	Up	Up	Down	Down

Past performance does not guarantee future results.

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