# Weekly
VANTAGE POINT

Sep 5-8, 2017 Recap

## Stocks Weaken Ahead of Hurricane Irma

**September 11, 2017** – U.S. stocks finished the holiday-shortened trading week modestly lower, as Wall Street investors remained cautious ahead of a possible North Korean ballistic missile test and the weekend arrival of Hurricane Irma in southern Florida. Energy and technology companies tumbled on Friday. Meanwhile, telecom, banks and insurance firms led losses for the week and bond yields fell to the lowest levels this year on safer-haven asset buying and speculation the Federal Reserve may delay raising interest rates this month. Equities received a mid-week respite when President Trump crossed the aisle to strike a deal with Democrat Congressional leaders to temporarily extend the federal debt ceiling through December 8th.

In key economic data last week, factory orders declined 3.3% in July, but capital goods orders excluding aircraft and military hardware, a proxy for business investment, rose 1%, topping estimates for a 0.4% increase. Overall durable goods orders, goods designed to last at least three years, fell 6.8%, while non-durable goods orders rose 0.4%. The U.S. trade deficit widened less than forecast in July, rising 0.3% to $43.7B, as exports and imports both slowed mainly due to reduced trade in autos. Commerce officials revised the second quarter reading of worker productivity higher, to 1.5%, topping projections; this follows a 0.9% increase the prior quarter. However, unit labor costs rose just 0.2%, shy of forecasts, and trailed a 0.6% first quarter increase.

For the week, the S&P 500 fell 0.58%, the Dow Industrials lost 0.86% and the NASDAQ Composite declined 1.16%. Small caps stocks also lagged, with the Russell 2000 Index down 0.98% last week. Within the S&P 500, 6 of its 11 major sector groups ended negative last week, with Telecom (-4.5%), Financials (-2.82%) and Materials (-1.06%) down the most. Healthcare (+1.56%) and Energy (+1.37%) led among gainers. U.S. crude oil prices nearly erased a 4% rally earlier in the week, finishing the week up just 0.4%. The U.S. Dollar Index weakened by over 1.5% to finish at 91.352. Treasury prices rallied, sending the yield on 10-year Treasury notes down 11.5 basis points to 2.052%.

### What We're Reading

**Harvey, Irma Damages Estimated at $290B ↗**

**More Sanctions for North Korea? ↗**

**Stocks Rebound on Relief Rally ↗**

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### Week's Economic Calendar

**Monday, Sept 11:** No major releases;

**Tuesday, Sept 12**: Small Business Optimism, JOLTS;

**Wednesday, Sept 13:** Mortgage Applications, Producer Prices;

**Thursday, Sept 14:** Consumer Prices, Jobless Claims;

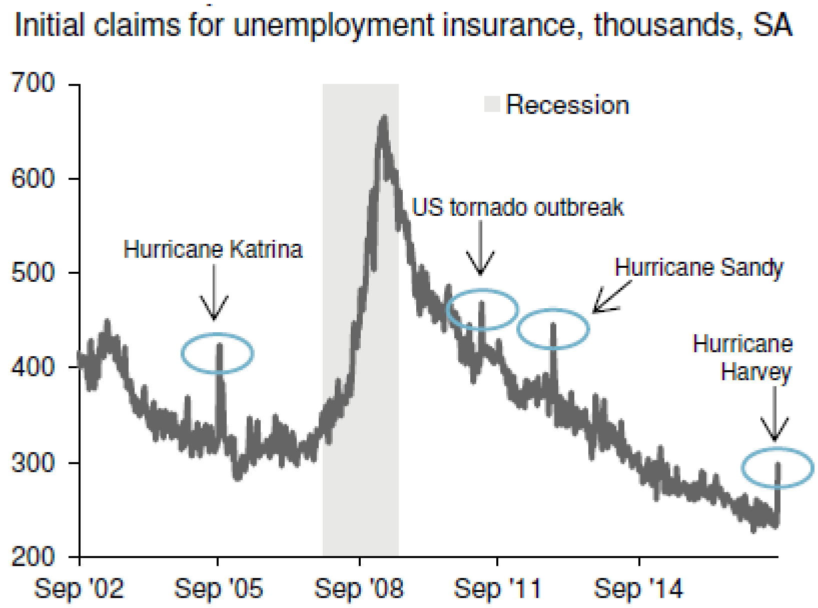
**Friday, Sept 15:** Quadruple Witching Hour, Retail Sales, Empire State Mfg., Industrial Production, Business Inventories, Consumer Sentiment.

## Market Watch

| Stocks | 1-Week | MTD | 3-Month | YTD | 1-Year | 3-Year |
|---|---|---|---|---|---|---|
| Dow Jones Industrial Avg. | -0.86% | -0.68% | 2.90% | 10.30% | 17.97% | 8.40% |
| S&P 500 | -0.58% | -0.38% | 1.65% | 11.51% | 15.21% | 9.42% |
| NASDAQ Composite | -1.16% | -1.05% | 0.87% | 19.07% | 22.33% | 12.79% |
| Russell 3000 | -0.67% | -0.42% | 1.41% | 10.74% | 14.81% | 8.94% |
| MSCI EAFE | 0.83% | 1.23% | 3.59% | 18.49% | 15.80% | 3.36% |
| MSCI Emerging Markets | 0.03% | 0.37% | 8.24% | 28.77% | 20.36% | 2.26% |
| **Bonds** | | | | | | |
| Barclays Agg Bond | 0.46% | 0.27% | 1.44% | 3.92% | 1.00% | 2.90% |
| Barclays Municipal | 0.32% | 0.30% | 1.32% | 5.51% | 1.33% | 3.56% |
| Barclays US Corp High Yld | 0.11% | 0.17% | 1.28% | 6.23% | 8.40% | 4.98% |
| **Commodities** | | | | | | |
| Bloomberg Commodity | -0.23% | 0.15% | 3.42% | -2.58% | 0.25% | -11.68% |
| S&P GSCI Crude Oil | 0.65% | 0.77% | 4.06% | -11.40% | -0.32% | -19.87% |
| S&P GSCI Gold | 1.56% | 2.19% | 5.60% | 17.32% | 0.72% | 2.51% |

## Chart of the Week: Economic Impact of Natural Disasters is Short-Lived

**Chart 1**




Source:BLS, NBER, J.P. Morgan Asset Management.

With any natural disaster, it is important to separate human tragedy from economic impact. That said, while natural disasters tend to coincide with short-term economic weakness, history suggests that economies are, for the most part, able to rebound over the medium term. As shown in Chart 1, the U.S. has seen four major natural disasters over the past 15 years, each of which led to a significant spike in jobless claims in the immediate aftermath. However, in each instance, these dislocations were limited to the affected region and did not meaningfully impact the longer-term economic trend.

While refinery disruptions have boosted gasoline prices and could hurt the consumer, insurance payments to replace destroyed vehicles could have the opposite effect. Either way, according to J.P. Morgan, the economic impact should be temporary. Moreover, events such as Hurricanes Harvey and Irma serve as a reminder of why portfolio diversification is so critical – by having some assets that zig when other assets zag, it is possible to create a smoother, less volatile portfolio.

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*This report is created by Tower Square Investment Management, LLC.*



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## Glossary

*The* ***Barclays U.S. Treasury: U.S. TIPS Index*** *includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.*

*The* ***Bloomberg Barclays US Aggregate Bond Index****, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly*

*The* ***Bloomberg Barclays U.S. Corporate (Investment Grade) Bond Index*** *measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-US private-sector industrial, utility and financial issuers. Certificates of deposit are also included. Launched in July 1973, securities included must be rated investment grade (Baa3/BBB-/BBB- or higher). Eligible senior and subordinated corporate securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 10.75 years. The index is unhedged and rebalances monthly.*

*The* ***Bloomberg Barclays US Corporate High Yield Index*** *measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.*

*The* ***Bloomberg Barclays US Municipal Bond Index*** *covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the subindicies of the Municipal Index have historical data to January 1980. In addition, several subindicies based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly*

*The* ***Bloomberg U.S. Treasury Floating Rate Bond Index*** *is a rules-based, market value-weighted index engineered to measure the performance of floating rate U.S. Treasury bonds. The index inception date is January 31, 2014—the first month-end following the U.S. Treasury's issuance of a floating rate bond. Historical performance and characteristics are available from January 31, 2014, when floating rate notes were offered and first traded, the first new Treasury security since the introduction of Treasury-Inflation-Protected Securities (TIPS) in 1997.*

*The* ***Bloomberg Barclays US Convertible Bond > $500MM Index*** *is designed to represent the market of US convertible securities, such as convertible bonds, with outstanding issue sizes greater than $500 million.*

*The* ***Bloomberg Commodity Index*** *is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index;*

*and no group can represent more than 33% of the index. However, between rebalancings, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.*

*The* ***CBOE Volatility Index® (VIX®)*** *is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*

*The* ***Dow Jones Industrial Average*** *is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*

*The* ***MSCI ACWI Index*** *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The SMCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy , Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.*

*The* ***MSCI EAFE Index*** *is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

*The* ***MSCI Emerging Markets Index*** *is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The* ***NASDAQ Composite Index*** *includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index*

*The* ***NASDAQ-100 Index*** *includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization.*

*The* ***Russell 2000 Index*** *measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

*The* ***Russell 3000 Index*** *measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*

*The* ***Russell Midcap Index*** *measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*

*The* ***S&P 500*** *is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*

***West Texas Intermediate (WTI)*** *is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts*

*The* ***U.S. Dollar Index*** *is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008*


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