July 2018

Monthly Market Commentary

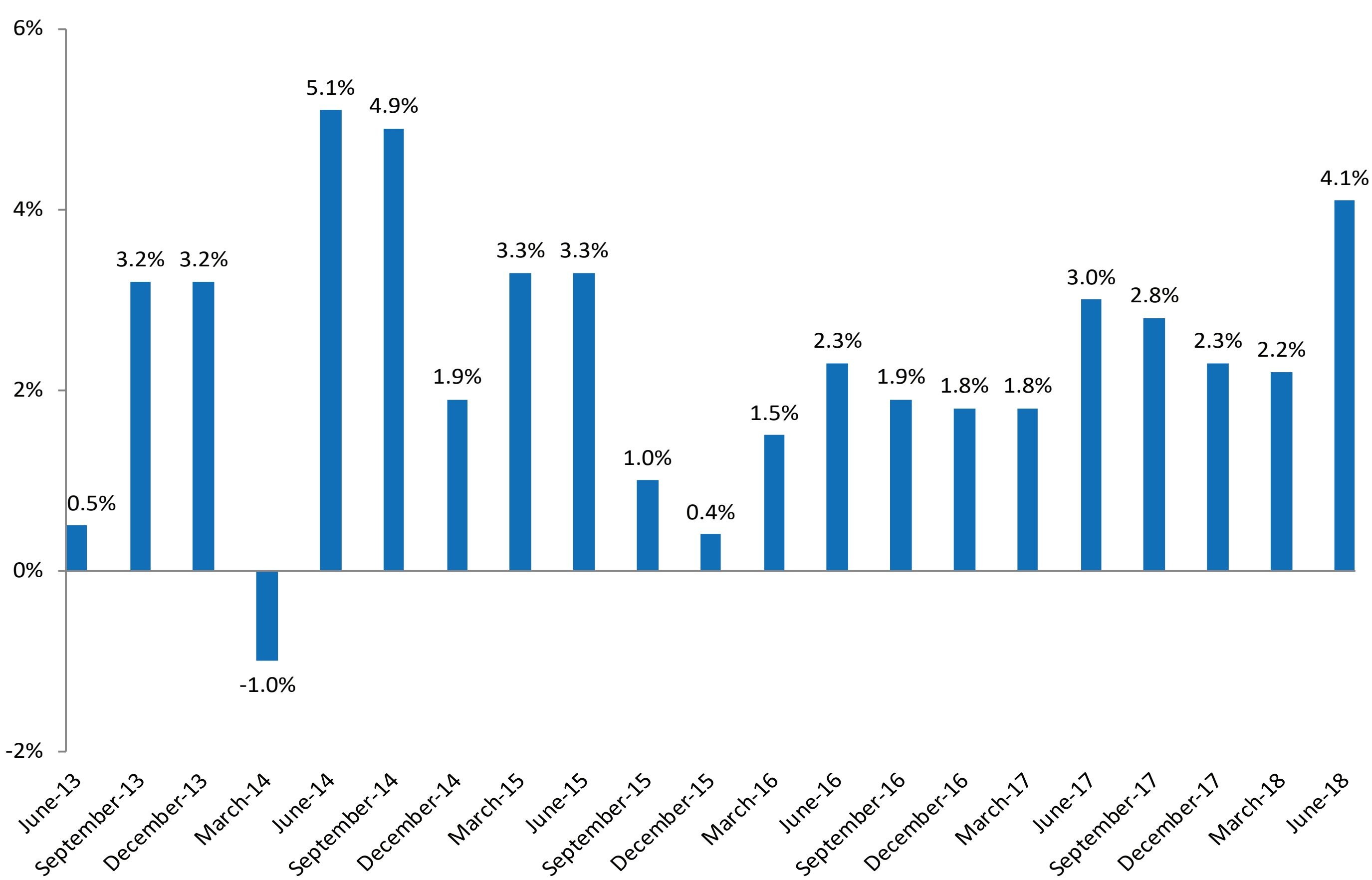
Discussion Points

- » Q2 GDP Up 4.1%
- » International Markets Struggle
- » Potential Housing Slowdown?

U.S. Economic Update

The S&P 500 Index kicked off the third quarter by rising 3.72% in July. This brought the year-to-date return to 7.66%. This performance strength was validated as the U.S. GDP growth rate of 4.1% occurred during the second quarter, meeting expectations. Although some of this growth can be attributed to recent corporate tax reform, this growth is the highest level the U.S. economy has seen since the third quarter of 2014. The Consumer Discretionary and Technology sectors have been the best performing sectors this year, rising over 13% and 11%, respectively, while Consumer Staples and Materials remain in negative territory. Earnings for the second quarter are quickly nearing their completion as 426 companies have reported earnings at the time of this writing. As it stands, earnings grew at 25% year-over-year while sales increased over 10% year-over-year.

US GDP: The Tide is Rising



Source: Bloomberg, U.S. GDP CQOQ Index

Volatility

Equity markets experienced volatility that had a major impact on market capitalization. Facebook experienced the single largest market-cap loss of a security in a single day. The social media giant fell 19%, which equated to $119 billion after weaker than expected revenue forecasts. To put that in perspective, that market-cap loss is roughly the equivalent of the fast-food empire McDonald's. Roughly one week later, Apple became the first company in the U.S. to reach market capitalization of $1 trillion.

International

International markets represented by the MSCI EAFE and MSCI EM indices are still negative for the year due to slowing global growth concerns. U.S. trade wars are continuing to take center stage with the European Union and China. The E.U. is currently in talks with the U.S. in an attempt to reduce, and even possibly eliminate, tariffs between the two trade partners. China, on the other hand, is in the process of increasing the tariffs on imports from the U.S. by an additional $16 billion worth of goods. That would bring China's tariffs on imported U.S. goods to a total of roughly $50 billion. Another consideration for global markets is that the U.S. Dollar continues to strengthen and is now up over 3.5% year-to-date. This especially hurts emerging markets, which are closely tied to commodity prices and typically move inversely to the U.S. Dollar. This also hurts emerging companies based outside the U.S. that have issued Dollar-denominated debt. Servicing this debt becomes more expensive as the Dollar appreciates. Domestic fixed income markets have struggled as well.

Fixed Income

The Bloomberg Barclays U.S. Aggregate Bond Index managed to barely stay positive this month as the index remains down 1.59% this year. The Federal Reserve left rates unchanged in the July 31-August 1 meeting. All eyes now look to their next meeting, which will be held in late September. The market is overwhelmingly expecting a 0.25% rate increase on the Federal Funds rate. Investors seem to be more focused on trying to predict the outcome of the Fed's December meeting. At the time of this writing, according to Bloomberg, the probability of that potential rate hike is a coin toss.

Housing

The U.S. housing market may finally be showing signs of cooling. Existing home sales fell for the third straight month in June. Ironically, it could be due to inventory shortages. According to the Federal Reserve Bank of Kansas City, new home construction per household is at its lowest level in nearly 60 years. It is now at 9.5 starts per 1,000 households, compared to 2005 when it reached 18.2. This shortage has likely helped inflate home prices. With interest rates on the rise and mortgage applications continuing to decline, it could be evidence that more consumers are being slowly priced out of the housing market.

MMC-JUL18 (08/18)