

Market & Economic Review

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Second Quarter / Key Takeaways

The second quarter of the year can be called a lot of things, but boring isn't one of them. The potential for a trade war between the United States and China heated up in April as China responded to the threat of U.S. tariffs on Chinese imports by warning of the same magnitude of tariffs on American exports. Favorable corporate earnings reports helped calm some of the global economic angst investors may have felt.

Despite expanding trade tensions between the United States, China, Canada, Mexico, and the European Union, equities enjoyed a better month in May, riding surging energy stocks.

A strong jobs report kicked off the month of June on a mostly positive note. Stocks closed the first full week of June higher, led by the large caps of the S&P 500 and the Dow. However, by the middle of the month, investors were hit with China's threat of increased tariffs on U.S. exports, while Canada pledged to impose retaliatory penalties as well.

2Q18 Benchmark Returns

	2Q	2018
Equities		
S&P 500 Total Return Index	3.4%	2.6%
Russell Index 1000 w/Dividend	3.6%	2.9%
Russell Index 2000 w/Dividend	7.8%	7.7%
Russell Index 3000 w/Dividend	3.9%	3.2%
MSCI Developed EAFE (USD)	-1.0%	-2.4%
MSCI Emerging Markets (USD)	-8.7%	-7.7%
Alternatives		
Credit Suisse Hedge Fund Index	0.3%	0.8%
DJ Wilshire Global REIT Index	5.5%	-1.0%
Credit Suisse Hedge Mgd Fut Index	-1.7%	-5.1%
S&P GSSI Natural Resources Index	12.1%	5.3%
Barclays High Yield Bond Index	1.0%	0.2%
Fixed Income		
90 Day Treasury Bill	0.5%	0.8%
Barclays Muni Bond Index	0.9%	-0.2%
Barclays Aggregate Bond Index	-0.2%	-1.6%
Barclays Global Bond Index	-4.9%	-0.6%

Jay Berger, CFP®
jay.berger@iwmusa.com

Steve Fisher, CFP®
steve.fisher@iwmusa.com

Scott Hackney, CFP®
scott.hackney@iwmusa.com

236 1/2 East Front Street
Traverse City, Michigan 49684
231 929 1086 tel
888 929 1086 toll free
231 346 5959 fax
www.iwmusa.com

The Markets (as of market close June 29, 2018)

The second quarter of the year can be called a lot of things, but boring isn't one of them. The potential for a trade war between the United States and China heated up in April as China responded to the threat of U.S. tariffs on Chinese imports by warning of the same magnitude of tariffs on American exports. Favorable corporate earnings reports helped calm some of the global economic angst investors may have felt. The indexes listed here ended the month ahead of their March closing values — but only barely. The Global Dow (1.16%) and the Russell 2000 (0.81%) posted the largest monthly gains, followed by marginal upticks in the S&P 500 (0.27%), the Dow (0.25%), and the Nasdaq (0.04%).

Despite expanding trade tensions between the United States, China, Canada, Mexico, and the European Union, equities enjoyed a better month in May, riding surging energy stocks. For most of the month, oil prices hit multi-year highs before falling at the end of May. Robust first-quarter earnings reports also helped push stock markets higher. In fact, each of the indexes listed here posted strong end-of-month gains. The small caps of the Russell 2000 (5.95%) and the tech-heavy Nasdaq (5.32%) enjoyed the largest gains, followed by the S&P 500 (2.16%) and the Dow (1.05%). Of the indexes in this report, only the Global Dow lost value, falling 1.95% by the end of May.

A strong jobs report kicked off the month of June on a mostly positive note. Stocks closed the first full week of June higher, led by the large caps of the S&P 500 and the Dow. However, by the middle of the month, investors were hit with China's threat of increased tariffs on U.S. exports, while Canada pledged to impose retaliatory penalties as well. By the end of the month, the Dow and Global Dow lost some value, while the remaining indexes listed here posted marginal gains.

Overall, the second quarter saw the tech-heavy Nasdaq gain over 6.0%, only to be bested by small caps of the Russell 2000, which grew by almost 7.5%. The S&P 500 also closed the quarter ahead of its first-quarter closing values. The Dow didn't fare as well, finishing the quarter up by less than 1.0%. Prices for 10-year Treasuries rose by the end of the quarter, pulling yields down by 13 basis points. Crude oil prices closed the quarter at about \$74.25 per barrel by the end of June, almost \$10 per barrel higher than prices at the close of the first quarter. Gold closed the quarter at roughly \$1,254.20, noticeably lower than its \$1,329.60 price at the end of March. Regular gasoline, which was \$2.648 per gallon on March 26, climbed to \$2.833 on the 25th of June.

Last Month's Economic News

Employment: Total employment rose by 223,000 in May after adding 164,000 new jobs in April. The average monthly gain over the prior 12 months is 191,000. Notable employment gains occurred in professional and technical services (23,000),

retail trade (31,000), and health care (29,000). The unemployment rate slipped to 3.8%. The number of unemployed persons declined to 6.1 million. Over the year, the unemployment rate was down by 0.5 percentage point, and the number of unemployed persons declined by 772,000. The labor participation rate was little changed at 62.7% (62.9% in April). The employment-population ratio held at 60.4%. The average workweek was unchanged at 34.5 hours for the month. Average hourly earnings increased by \$0.08 to \$26.92. Over the last 12 months, average hourly earnings have risen \$0.71, or 2.7%.

FOMC/ interest rates: The Federal Open Market Committee raised the federal funds target range rate for the second time this year, bumping the range up by 25 basis points following the Committee's June meeting. The target range now sits at 1.75%-2.00%. The Committee cited continued strengthening in the labor market and increased household spending as justifications for the rate hike. Also of note, the Committee forecasts the median funds rate at 2.4% by year's end instead of 2.1% as forecasted in March. This means two more rate hikes could be in the offing before the end of the year.

GDP/budget: The third and final estimate of the first-quarter gross domestic product showed the economy expanded at an annual rate of 2.0%, according to the Bureau of Economic Analysis. The fourth-quarter GDP grew at an annualized rate of 2.9%. According to the report, consumer spending was rather subdued, expanding at a rate of only 0.9%. Corporate profits increased \$39.5 billion in the first quarter, in contrast to a decrease of \$1.1 billion in the fourth quarter. Fewer exports and more imports during the quarter contributed to slower economic growth. Spending on durable goods, which had increased 13.7% in the fourth quarter, dropped 2.1% in the first quarter. Gross domestic income rose 3.6% in the first quarter — far surpassing the 1.0% growth rate in the fourth quarter. The government budget deficit was \$146.8 billion in May following a surplus of \$214.3 billion in April. For fiscal 2018 through May, the federal deficit sits at \$532.2 billion — up by \$99.4 billion, or about 23%, from the deficit over the same period last year.

Inflation/consumer spending: Consumer spending, as measured by personal consumption expenditures, jumped 0.2% in May, after increasing 0.5% in April. Core consumer spending (excluding food and energy) also rose 0.2% in May. Core consumer prices, a tracker of inflationary trends, increased 0.2% in May. But of more importance, core prices have increased 2.0% over the last 12 months — an annual rate that could prompt more interest rate increases during the remainder of 2018.

- The Consumer Price Index rose 0.2% in May, the same increase as in April. Over the last 12 months ended in May, consumer prices are up 2.8%. Core prices, which exclude food and energy, also climbed 0.2% for the month, and are up 2.2% for the year.
- Prices at the wholesale level expanded noticeably in May.

The Producer Price Index showed the prices companies receive for goods and services jumped 0.5% after climbing 0.1% in April. Year-over-year, producer prices have increased 3.1%. Prices less food and energy increased 0.3% for May and are up 2.4% over the last 12 months.

Housing: Sales of existing homes continued to slow in May. Total existing-home sales fell 0.4% for May following a 2.5% drop in April. Year-over-year, existing home sales are down 3.0%. The May median price for existing homes was \$264,800, which is 4.9% higher than the May 2017 price of \$252,500. While inventory for all types of existing homes for sale rose 2.8% in May, it is 6.1% lower than a year ago. New home sales, on the other hand, climbed 6.7% in May after falling 1.5% in April. Falling home prices surely led to the spike in new home sales. The median sales price of new houses sold in May was \$313,000 (\$318,500 in April). The average sales price was \$368,500 (\$394,600 in April). Inventory fell slightly to 5.2 months, down from the 5.5-month supply in April.

Manufacturing: Industrial production edged down 0.1% in May after increasing 0.9% in April. Nevertheless, total industrial production is 3.5% higher in May than it was a year earlier. Manufacturing production fell 0.7% in May, largely because truck assemblies were disrupted by a major fire at a parts supplier. Excluding motor vehicles and parts, factory output moved down 0.2%. The index for mining rose 1.8%, its fourth consecutive month of growth; the output of utilities moved up 1.1%. New orders for manufactured durable goods climbed 0.6% in May following two consecutive monthly decreases.

Imports and exports: The advance report on international trade in goods revealed that the trade gap decreased by \$2.5 billion in May from April. The deficit for May was \$64.8 billion (the April deficit was \$67.3 billion). May exports of goods jumped 2.1%, while imports increased 0.2%. On a seasonally adjusted basis, May's total imports (\$208,405 billion) far exceeded exports (\$143,560 billion). Both import and export prices are starting to move higher. Import and export prices are starting to move higher; both increased 0.6% in May after climbing 0.3% and 0.6%, respectively, in April. Over the last 12 months, import prices have increased 4.3% and export prices are up 4.9%.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

International markets: Investors, both at home and abroad, may be concerned that the escalating trade dispute between the United States and several other important trade partners may stunt global economic growth. Despite the negative trade rhetoric, China's economy expanded at a rate of 6.8% in the first quarter, much to the surprise of some investors and economic analysts. On the other hand, potential trade tariffs may have impacted Europe's largest economy. Germany's gross domestic product stalled in the first quarter, growing at a subdued rate of 1.2% after expanding 2.5% in the fourth quarter. Overall, the eurozone GDP also decelerated to a growth rate of 1.7% in the first quarter, down from the 2.7% rate of growth in the fourth quarter.

Consumer sentiment: Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, dipped 2.4% in June following an increase in May. According to the report, consumers' confidence in the present economic conditions remained relatively the same as in May, but expectations for future growth were tempered. This reading may be reflective of the imposition of tariffs and the ongoing trade war.

Eye on the Month Ahead

Moving to the second half of the year, the economy in general and the market in particular will likely react based on the ongoing global economic trade wars. Fewer imports could lead to more domestic sales, which could add to job growth. However, prices could also increase at a rate ahead of wage growth.

As always, we are appreciative and are humbled by your trust and confidence.



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