

Market & Economic Review

A Quarterly Publication | Historical Perspectives | 2nd Quarter 2019

Second Quarter / Key Takeaways

The second quarter was full of ups and downs for stocks as investors had plenty to worry about. Throughout the quarter, the trade war between the United States and China ebbed and flowed as news continuously changed from positive to negative. Employment was steady and the unemployment rate remained low, but wage growth was moderate at best. Manufacturing and industrial production hit a snag during the second quarter, as did business fixed investment.

April saw stocks post solid returns as each of the benchmark indexes listed here enjoyed gains of at least 2.5%. Unfortunately, the gains of April were lost in May as stocks fell sharply, closing out their worst month since last December. Stocks rebounded during the middle of June and soared by the end of the month.

Ultimately, stocks posted solid gains by the end of the second quarter. The benchmark indexes listed all closed the quarter with a gain except for Emerging Markets and Natural Resources.

2Q19 Benchmark Returns

	2Q	YTD
Equities		
S&P 500 Total Return Index	4.3%	18.5%
Russell Index 1000 w/Dividend	4.2%	18.8%
Russell Index 2000 w/Dividend	2.1%	17.0%
Russell Index 3000 w/Dividend	4.1%	18.7%
MSCI Developed EAFE (USD)	4.0%	14.5%
MSCI Emerging Markets (USD)	-0.3%	9.2%
Alternatives		
Credit Suisse Hedge Fund Index	0.3%	4.4%
DJ Wilshire Global REIT Index	0.2%	13.4%
iShares S&P US Pref Stock Index	1.3%	8.3%
S&P GSSI Natural Resources Index	-1.4%	14.6%
Barclays High Yield Bond Index	2.5%	9.9%
Fixed Income		
90 Day Treasury Bill	0.6%	1.2%
Barclays Muni Bond Index	2.1%	5.1%
Barclays Aggregate Bond Index	3.1%	6.1%
Barclays Global Bond Index	3.6%	5.0%

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

Latest Economic Reports

Employment: Total employment edged up 75,000 in May after adding 224,000 (revised) new jobs in April. The average monthly job gain in 2019 was 164,000 per month (223,000 in 2018). Notable employment increases for May occurred in professional and business services (33,000) and health care (16,000). The unemployment rate remained at 3.6% in May after falling 0.2 percentage point in April. The number of unemployed persons was little changed at 5.9 million. The labor participation rate was 62.8% and the employment-population ratio was 60.6% — both unchanged in May. The average workweek was unchanged at 34.4 hours for May. Average hourly earnings increased by \$0.06 to \$27.83. Over the last 12 months ended in May, average hourly earnings have risen 3.1%.

FOMC/interest rates: As expected, the Federal Open Market Committee did not change interest rates following its latest meeting in June. Lack of price inflation and slowing economic growth underscored the Committee's reluctance to raise rates. In fact, there is a growing sentiment among Committee members to lower rates in the near future, as projections released by the FOMC in June show the federal funds rate range at between 1.9% and 2.4% by the end of 2019.

GDP/budget: The third and final estimate of the first-quarter gross domestic product showed the economy grew at an annualized rate of 3.1%. The GDP expanded at a rate of 2.2% for the fourth quarter of 2018. Driving the growth rate increase was an upturn in nonresidential (business) fixed investment, state and local government spending, and exports, coupled with a smaller decrease in residential investment. These movements were partly offset by decelerations in consumer spending (0.9% in the first quarter compared to 2.5% in the fourth quarter). The federal budget deficit was \$207.8 billion in May after enjoying a surplus of \$160.3 billion in April (\$146.8 billion in May 2018). Through the first eight months of the fiscal year, the government deficit sits at \$738.6 billion. Over the same period for fiscal year 2018, the deficit was \$532.2 billion.

Inflation/consumer spending: Inflationary pressures remain weak as consumer prices are up 1.5% over the last 12 months ended in May. Consumer prices excluding food and energy are up 1.6% over the same 12-month period. For the month, consumer prices rose 0.2% over April, when prices increased 0.3%. In May, consumer spending rose 0.4% (0.6% in April). Personal income and disposable (after-tax) personal income climbed 0.5% in May, respectively, matching the same increases as in April.

- The Consumer Price Index increased 0.1% in May after rising 0.3% in April and 0.4% in March. Over the 12 months ended in May, the CPI rose 1.8%. The food index rose 0.3% in May after declining in April, with the food index accounting for nearly half of the May CPI monthly increase. The energy index fell 0.6% in May, with the gasoline index falling 0.5%. Core prices, less food and energy, also inched

up 0.1% in May for the fourth consecutive month. Core prices have risen 2.0% over the 12 months ended in May.

- According to the Producer Price Index, the prices companies received for goods and services rose 0.1% in May after climbing 0.2% in April. The index increased 1.8% for the 12 months ended in May. The index less foods, energy, and trade services moved up 0.4% in May, the same increase as in April, and has increased 2.3% over the last 12 months.

Housing: Activity in the housing market can be described as erratic at best. Existing home sales rose 2.5% in May after registering no change in April from the prior month. Year-over-year, existing home sales remain down 1.1% (4.4% for the 12 months ended in April). Existing home prices continue to rise, as the May median price for existing homes was \$277,700, up from \$267,300 the prior month. Existing home prices were up 4.8% from May 2018. Total housing inventory for existing homes for sale in May increased to 1.92 million, up from 1.83 million existing homes available for sale in April and 2.7% ahead of sales a year ago. Sales of new single-family houses fell a whopping 7.8% in May following an April dip of 3.8% (revised). New home sales are now 3.7% below their May 2018 estimate. The median sales price of new houses sold in May was \$308,000 (\$342,200 in April). The average sales price was \$377,200 (\$393,700 in April). Inventory at the end of May was at a supply of 6.4 months (5.9 months in April).

Manufacturing: According to the Federal Reserve, industrial production rebounded in May, rising 0.4%, after falling 0.4% in April. In May, the indexes for manufacturing and mining gained 0.2% and 0.1%, respectively, while the index for utilities climbed 2.1%. Total industrial production was 2.0% higher in May than it was a year earlier. After showing signs of life during the first quarter, durable goods orders fell 1.3% in May after dropping 2.8% (revised) in April. New orders for transportation equipment drove the decrease, plummeting 4.6% for the month.

Imports and exports: In another sign that inflationary pressures are weak, import prices fell 0.3% in May after advancing 0.1% in April. This is the first monthly decline since a 1.4% decline in December. Import fuel prices declined 1.0% in May, after rising 25.4% over the previous four months. Nonfuel import prices were also down, falling 0.3% in May. Year-to-date, import prices are down 1.5% — the largest year-over-year decline since August 2016. Prices for exports dropped 0.2% in May following a 0.1% bump in April. Export prices have fallen 0.7% since May 2018. The latest information on international trade in goods and services, out June 6, is for April and shows that the goods and services deficit was \$50.8 billion, down from the \$51.9 billion deficit in March. April exports were \$206.8 billion, \$4.6 billion less than March exports. April imports were \$257.6 billion, \$5.7 billion less than March imports. Year-to-date, the goods and services deficit increased \$4.1 billion, or 2.0%, from the same period in 2018. Exports increased

\$8.3 billion, or 1.0%. Imports increased \$12.4 billion, or 1.2%. The advance report on international trade in goods (excluding services) revealed the trade deficit to be \$74.5 billion in May, up from the \$70.6 billion deficit in April. Goods exports in May were \$4.1 billion more than the prior month, while imports of goods were \$7.8 billion more than April's goods imports.

International markets: Escalating tensions between the United States and Iran have added to the already nervous world economy. In response to another round of tariffs imposed by the United States, China is lowering tariffs on imports it receives from other countries, while raising duties on imports received from America. The United Kingdom's gross domestic product fell sharply in April, down 0.4%, which marks the steepest drop since March 2016.

Consumer confidence: The Conference Board Consumer Confidence Index® fell to 121.5 in June, down from May's index of 131.3. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — decreased from 170.7 to 162.6. The Expectations Index — based on consumers' short-term outlook for income, business and labor market conditions — decreased from 105.0 last month to 94.1 in June.

Eye on the Year Ahead

The third quarter of the year will likely bring much of the same tumult as was found in the second quarter. Employment should remain strong, although wage growth has been relatively slow. It is worth noting that the Federal Open Market Committee has scaled back its views on economic growth and inflationary trends. In response, interest rates are not likely to increase in the foreseeable future and actually may be reduced. In any case, it appears that the ongoing trade war with China, coupled with tensions between the United States and Iran, will continue to impact the world economy and the U.S. stock market.

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



INDEPENDENT WEALTH MANAGEMENT

IWM

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.