IWM

Market & Economic Review

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Third Quarter / Key Takeaways

The third quarter was full of ups and downs for stocks, much like the second quarter. The Federal Reserve lowered interest rates two times during the quarter. More new jobs were added, but at a reduced rate, while wage growth continued. Manufacturing and industrial production remain muted, influenced, in part, by the waning global economy.

July kicked off the third quarter in a somewhat lackluster manner, as the benchmark indexes listed here posted gains over June's respective closing values. August started with President Trump's threat to impose additional tariffs on Chinese imports, which sent stocks plummeting. Throughout the month, each of the benchmark indexes listed here continued to lose value. September saw each of the benchmark indexes listed here post solid gains, led by the Global Dow, which rode a solid close to the month on encouraging economic data from China.

For the third quarter, large caps performed better than small caps. The Dow and the S&P 500 each finished 1.19% above 2Q closing values.

3Q19 Benchmark Returns

	3Q	YTD
Equities		
S&P 500 Total Return Index	1.7%	20.6%
Russell Index 1000 w/Dividend	1.4%	20.5%
Russell Index 2000 w/Dividend	-2.4%	14.2%
Russell Index 3000 w/Dividend	1.2%	20.1%
MSCI Developed EAFE (USD)	-1.7%	9.9%
MSCI Emerging Markets (USD)	-5.1%	3.7%
Alternatives		
Credit Suisse Hedge Fund Index	0.6%	7.1%
DJ Wilshire Global REIT Index	4.7%	18.7%
iShares S&P US Pref Stock Index	7.9%	16.6%
S&P GSSI Natural Resources Index	-4.5%	9.4%
Barclays High Yield Bond Index	1.3%	11.4%
Fixed Income		
90 Day Treasury Bill	0.5%	1.7%
Barclays Muni Bond Index	1.6%	6.7%
Barclays Aggregate Bond Index	2.3%	8.5%
Barclays Global Bond Index	0.1%	5.1%

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Latest Economic Reports

Employment: Total employment increased by 130,000 in August after adding 159,000 (revised) new jobs in July. The average monthly job gain so far in 2019 fell to 158,000 per month (223,000 in 2018). Notable employment increases for August occurred in professional and business services (37,000), health care (24,000), financial activities (15,000), and social assistance (13,000). The unemployment rate remained at 3.7% in August. The number of unemployed persons fell slightly to 6.0 million (6.1 million in July). The labor participation rate edged up 0.2 percentage point to 63.2%, and the employment-population ratio was 60.9% (60.7% in July). The average workweek increased 0.1 hour to 34.4 hours for August. Average hourly earnings increased by $0.11 to $28.11. Over the last 12 months ended in August, average hourly earnings have risen 3.2%.

FOMC/interest rates: The Federal Open Market Committee followed July's 25-basis-point cut by lowering interest rates another 25 basis points in September. The federal funds rate range has been decreased by 50 basis points so far this year. Interestingly, the Committee's action was not unanimous. Of the 10 members voting, 1 voted for a 50-basis-point reduction, while 2 members opted for no rate reduction. Nevertheless, in support of its decision to reduce interest rates, the Committee noted that inflation continues to run below the Fed's 2.0% target rate, business fixed investment and exports have weakened, and global economic developments are uncertain.

GDP/budget: Economic growth slowed in the second quarter but was still solid. According to the third and final estimate of the gross domestic product, the second quarter grew at an annualized rate of 2.0%. The first quarter saw an annualized growth of 3.1%. Consumer prices and spending increased in the second quarter, rising 2.4% and 4.6%, respectively. Pulling the GDP down in the second quarter were negative contributions from business fixed investment (equipment, software, structures, etc.) and exports. The federal budget deficit was $200 billion in August ($119.7 billion in July). Through the first 11 months of the fiscal year, the government deficit sits at $1,067 billion,18.8% more than the deficit over the same period last year.

Inflation/consumer spending: Inflationary pressures remain weak, as consumer prices showed no increase in August and are up 1.4% over the last 12 months. Consumer prices excluding food and energy inched up 0.1% in August (0.2% increase in July) and 1.8% since August 2018. In August, consumer spending rose 0.1% (0.5% in July). Personal income and disposable (after-tax) personal income climbed 0.4% and 0.5%, respectively, in August.

- The Consumer Price Index increased 0.1% in August following a 0.3% advance in July. Over the 12 months ended in August, the CPI rose 1.7%. Energy prices fell 1.9% on the month with gasoline down 3.5%. Prices less food and energy rose 0.3% in August — the same increase as in July. Since last August, core prices (less food and energy) are up 2.4%.
- According to the Producer Price Index, the prices companies received for goods and services rose 0.1% in August after increasing 0.2% in July. The index increased 1.8% for the 12 months ended in August. Prices for goods fell 0.5% in August, pulled down by falling energy prices. Prices for services increased 0.3% last month. However, the price index less foods, energy, and trade services jumped 0.4% in August after dropping 0.1% the prior month. The price index less foods, energy, and trade services increased 1.9% over the last 12 months.

Housing: Activity in the housing market can be described as erratic at best. Existing home sales jumped 1.3% in August after climbing 2.5% in July. Year-over-year, existing home sales are up 2.6%. Existing home prices fell in August, as the median price for existing homes was $278,200, down from July's median price of $280,800. Nevertheless, existing home prices were up 4.7% from August 2018. Total housing inventory for existing homes for sale in August decreased to 1.86 million (1.89 million in July), representing a 4.1-month supply at the current sales pace. After falling close to 9.5% in July, sales of new single-family houses climbed 7.1% in August. New home sales are up 18.0% over their August 2018 estimate. The median sales price of new houses sold in August was $328,400 ($305,400 in July). The average sales price was $404,200 ($372,700 in July). Inventory at the end of August was at a supply of 5.5 months (5.9 months in July).

Manufacturing: According to the Federal Reserve, industrial production rose 0.6% in August after falling 0.1% July. Manufacturing output advanced 0.5% following a 0.4% drop in July. In August, mining output and utilities climbed 1.4% and 0.6%, respectively. Total industrial production was 0.4% higher in August than it was a year earlier. Orders for durable goods increased for the second month in a row in August, climbing 0.2% after increasing 2.0% in July. New orders for capital goods used by businesses to produce consumer goods fell 2.1% in August. New orders for capital goods excluding transportation increased 0.5% last month, while new orders for capital goods excluding defense fell 0.6%.

Imports and exports: Both import and export prices ebbed in August, falling 0.5% and 0.6%, respectively. For the year, import prices are down 2.0%, while export prices are off 1.4%. In August, a drop in fuel prices was the main drag on import prices, while falling agricultural and non-agricultural prices pulled export prices lower. The latest information on international trade in goods and services, out September 4, is for July and shows that the goods and services deficit was $54.0 billion, down from the revised $55.5 billion deficit in June. July exports were $207.4 billion, $1.2 billion more than June exports. July imports were $261.4 billion, $0.4 billion less than June imports. Year-to-date, the goods and services deficit increased $28.2 billion, or 8.2%. Exports decreased $3.4 billion, or 0.2%. Imports increased $24.9 billion, or 1.4%. The advance report on international trade in goods (excluding services) revealed the trade deficit rose to $72.8 billion in August, up from $72.5 billion in July. Exports of goods in August were $137.8 billion, $0.2 billion more than July exports, while imports of goods were $210.6 billion, $0.5 billion more than July imports.

International markets: British Prime Minister Boris Johnson attempted to shut down Parliament for several weeks as part of his effort to shunt opponents to his plan to push through a "no deal" Brexit by October 31. However, the UK Supreme Court ruled the move was unlawful. This decision will likely put pressure on Johnson to resign. How this affects Brexit moving forward remains unclear. Household spending helped push the eurozone gross domestic product ahead 0.2% in the second quarter. The eurozone economy has grown 1.2% year-over-year. In China, economic activity worsened in August as industrial production slowed to its weakest pace since 2012, most likely impacted by the trade war with the United States.

Consumer confidence: While consumer confidence has been relatively strong for much of the year, it did fall back in August. Consumers' assessment of current business and labor market conditions decreased, as did consumers' short-term outlook for income, business and labor market conditions.

Eye on the Year Ahead

Economic growth has slowed so far this year, as lagging export orders have quelled manufacturing output. Wages continued to grow, while consumers ratcheted up their spending. The fourth quarter will likely ride the ebb and flow of economic and world events, not the least of which is the ongoing trade war between the world's two economic giants: China and the United States.

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

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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.