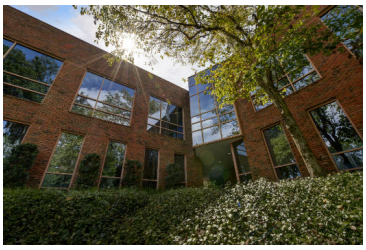

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Market Month: July 2018

The Markets (as of market close July 31, 2018)

Favorable economic indicators and encouraging corporate earnings reports helped propel stocks forward in July. Market growth has come despite trade wars between the United States and other trade partners, particularly China. Earlier in the month, the world's two largest economies imposed tariffs of $34 billion on each other's goods. Toward the end of July, there was hope of reopening negotiations between the United States and China in an attempt to diffuse the ongoing trade war. Domestically, the U.S. economy appears to be thriving. Over 210,000 new jobs were added in June, although wages have grown by only 2.7% over the last 12 months. Nevertheless, consumers are making more and spending more, while inflationary pressures on prices for goods and services remain in check.

Despite some periods of volatility, July proved to be a very good month for the benchmark indexes listed here. Led by the Dow, large caps, small caps, and tech stocks gained value over their respective June closing prices. Year-to-date, the Nasdaq is ahead by over 11.0%, followed by the Russell 2000, the S&P 500, the Dow, and the Global Dow, which is only 0.20% above its 2017 year-end value.

By the close of trading on July 31, the price of crude oil (WTI) was $68.43 per barrel, down from the June 29 price of $74.25 per barrel. The national average retail regular gasoline price was $2.772 per gallon on July 30, down from the June 25 selling price of $2.833 but $0.305 more than a year ago. The price of gold decreased by the end of July, closing at $1,232.90 on the last trading day of the month, down from its price of $1,254.20 at the end of June.

Market/Index	2017 Close	Prior Month	As of July 31	Month Change	YTD Change
DJIA	24719.22	24271.41	25415.19	4.71%	2.82%
NASDAQ	6903.39	7510.30	7671.79	2.15%	11.13%
S&P 500	2673.61	2718.37	2816.29	3.60%	5.34%
Russell 2000	1535.51	1643.07	1670.80	1.69%	8.81%
Global Dow	3085.41	2979.52	3091.69	3.76%	0.20%
Fed. Funds	1.25%-1.50%	1.75%-2.00%	1.75%-2.00%	0 bps	50 bps
10-year Treasuries	2.41%	2.86%	2.96%	10 bps	55 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Month's Economic News

- **Employment:** Total employment rose by 213,000 in June after adding 244,000 (revised) new jobs in May. The average monthly gain over the last three months is 211,000. Total employment has grown by 2.4 million over the last 12 months ended in June. Notable employment gains for the month occurred in professional and business services (50,000), manufacturing (36,000), and health care (25,000). Retail trade, which had posted notable job gains in May, lost 22,000 jobs in June. The unemployment rate rose to 4.0% from 3.8%. The number of unemployed persons increased by 499,000 to 6.6 million. A year

Key Dates/Data Releases

8/1: FOMC announcement, PMI Manufacturing Index, ISM Manufacturing Index

8/5: Employment situation, international trade

8/7: JOLTS

8/9: Producer Price Index

8/10: Consumer Price Index, Treasury budget

8/14: Import and export prices

8/15: Retail sales, industrial production

8/16: Housing starts

8/22: Existing home sales

8/23: New home sales

8/24: Durable goods orders

8/28: International trade in goods

8/29: GDP

8/30: Personal income and outlays

earlier, the jobless rate was 4.3% and the number of unemployed persons was 7.0 million. The labor participation rate edged up 0.2 percentage point over the month to 62.9%. 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 $0.05 to $26.98. Over the last 12 months, average hourly earnings have risen $0.72, or 2.7%.

- **FOMC/interest rates:** The Federal Open Market Committee does not conclude its next meeting until August 1. It is possible that interest rates will remain the same following this meeting. However, unless economic circumstances change dramatically over the next several months, it is likely that rates will be increased twice more before the end of 2018.
- **GDP/budget:** The second-quarter gross domestic product showed the economy expanded at an annual rate of 4.1%, according to the Bureau of Economic Analysis. The first-quarter GDP grew at an annualized rate of 2.2%. According to the report, consumer spending (personal consumption expenditures) surged, expanding at a rate of 4.0%. Net exports expanded by 9.3%. This is the first, or advance, estimate for the second quarter GDP. The next estimates, in August and September, will include more complete economic data. With only three months remaining in the fiscal year, the government budget deficit sits at $607.1 billion through June 30. Over the same period last year, the budget deficit was $523.1 billion — a difference of about 16%.
- **Inflation/consumer spending:** Consumer spending, as measured by personal consumption expenditures, jumped 0.4% in June after climbing 0.5% (revised) in May. Core consumer prices, a tracker of inflationary trends, increased 0.1% in June. Core prices have increased 1.9% over the last 12 months.
- The Consumer Price Index rose 0.1% in June after increasing 0.2% in May. Over the last 12 months ended in June, consumer prices are up 2.9% — the largest 12-month increase since the period ended February 2012. Core prices, which exclude food and energy, climbed 0.2% for the month, and are up 2.3% for the year.
- The Producer Price Index showed the prices companies receive for goods and services climbed 0.3% following a 0.5% jump in May. Producer prices have increased 3.4% over the 12 months ended in June, which is the largest 12-month increase since climbing 3.7% in November 2011. Prices less food and energy increased 0.3% for June and are up 2.7% over the last 12 months. Prices for services moved up 0.4% in June.
- **Housing:** Sales of existing homes continued to slow in June. Total existing-home sales fell 0.6% for the month after dropping 0.4% in May. Year-over-year, existing home sales are down 2.2%. The June median price for existing homes was $276,900, which is 5.2% higher than the June 2017 price of $263,300. Inventory for all types of existing homes for sale rose 4.3% in June — 0.5% above a year ago. New home sales regressed in June after climbing 6.7% in May. The median sales price of new houses sold in June was $302,100 ($313,000 in May). The average sales price was $363,300 ($368,500 in May). Inventory rose slightly in June to 5.7 months, up from the 5.2-month supply in May.
- **Manufacturing:** Industrial production advanced 0.6% in June after edging down 0.1% in May. For the second quarter as a whole, industrial production advanced at an annual rate of 6.0% — its third consecutive quarterly increase. Manufacturing output increased 0.8% following a 0.7% drop in May. The index for mining rose 1.2%, its fifth consecutive month of growth. The output of utilities fell 1.5%. Capacity utilization, which estimates the potential for sustainable output for total industrial production, rose 0.3 percentage point for the month, and is up 1.5% over the last 12 months. New orders for manufactured durable goods climbed 1.0% in June following a 0.3% drop in May.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap expanded by $3.6 billion in June, or 5.5%, over May. The deficit for June was $68.3 billion (the May deficit was $64.8 billion). June exports of goods fell 1.5%, while imports increased 0.6%. On a seasonally adjusted basis, June's total imports ($210,263 billion) far exceeded exports ($141,931 billion). Prices for imported goods fell 0.4% in June, while export prices rose 0.3%. Over the last twelve months ended in June, import prices are up 4.3%, while export prices have advanced 5.3%. Overall, increasing tariffs don't appear to be a factor in prices, at least for June.
- **International markets:** European stocks got a boost from favorable corporate earnings reports and positive rhetoric emanating from a meeting between President Trump and European Commission President Juncker aimed at reducing reciprocal tariffs between the governing bodies. Japan and the European Union agreed to a free-trade pact that is targeted at reducing tariffs on Japanese automobiles and parts and European foods imported by Japan. The Chinese yuan has lost value compared to the dollar. Speculation is that the Chinese government is allowing its currency to weaken, lowering the cost of Chinese exports around the world, which may help offset the effect of U.S. tariffs on Chinese imports. Nevertheless, economic growth in China has slowed as a result of the tariff war with the United States.
- **Consumer confidence:** Consumer confidence, as measured by The Conference Board Consumer

Confidence Index®, gained some positive traction after dipping in June. According to the report, consumers' confidence in the present economic conditions improved, but expectations for future growth were tempered.

Eye on the Month Ahead

The economy continues to show signs of strengthening despite trade wars, rising interest rates, and a stagnant real estate market. The labor market is expected to maintain its strong pace, while industrial production has been steady. Overall, August should see ongoing economic strengthening.

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.

IMPORTANT DISCLOSURES

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