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Market Month: July 2019

The Markets (as of market close July 31, 2019)

Stocks ran hot and cold in July, influenced by worsening global economic conditions, ongoing trade negotiations with China, and lagging domestic business investment. While the Fed's decision to reduce short-term interest rates was not unexpected, stocks were sent reeling, closing out the month on a bit of a sour note. Despite analysts and Wall Street predicting the interest rate reduction, some experts questioned the timing, particularly in the event of a deeper economic downturn in the future. Corporate earnings reports in July were generally positive, driving stock prices higher. Low unemployment, increased consumer spending, and moderate wage increases helped insulate domestic investors from an otherwise global economic downturn.

By the close of trading on the last day of the month, only the Global Dow was unable to surpass its June closing value. Otherwise, each of the benchmark indexes listed here posted monthly gains, led by the Nasdaq and the S&P 500. Year-to-date, the tech stocks of the Nasdaq continue to lead the way, climbing over 23% above their 2018 closing mark. In fact, each of the benchmark indexes listed here are well above their end-of-year values. While long-term bond yields inched up in July, for the year, escalating bond prices have kept yields down.

By the close of trading on July 31, the price of crude oil (WTI) was $57.88 per barrel, down from the June 28 price of $58.16 per barrel. The national average retail regular gasoline price was $2.715 per gallon on July 29, up from the June 24 selling price of $2.654 but $0.131 less than a year ago. The price of gold rose by the end of July, climbing to $1,426.10 by close of business on the 31st, up from its $1,413.30 price at the end of June.

Market/Index	2018 Close	Prior Month	As of July 31	Month Change	YTD Change
DJIA	23327.46	26599.96	26864.27	0.99%	15.16%
NASDAQ	6635.28	8006.24	8175.42	2.11%	23.21%
S&P 500	2506.85	2941.76	2980.38	1.31%	18.89%
Russell 2000	1348.56	1566.57	1574.60	0.51%	16.76%
Global Dow	2736.74	3074.41	3059.35	-0.49%	11.79%
Fed. Funds	2.25%-2.50%	2.25%-2.50%	2.00%-2.25%	-25 bps	-25 bps
10-year Treasuries	2.68%	2.00%	2.02%	2 bps	-66 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.

Latest Economic Reports

- **Employment:** Total employment increased by 224,000 in June after adding only 72,000 (revised) new jobs in May. The average monthly job gain so far in 2019 is 172,000 per month (223,000 in 2018). Notable employment increases for June occurred in professional and business services (51,000), health care (35,000), and transportation and warehousing (24,000). The unemployment rate inched up by 0.1

Key Dates/Data Releases

8/1: PMI Manufacturing Index, ISM Manufacturing Index

8/2: Employment situation, international trade

8/5: ISM Non-Manufacturing Index

8/6: JOLTS

8/9: Producer Price Index

8/12: Treasury budget

8/13: Consumer Price Index

8/14: Import and export prices

8/15: Retail sales, industrial production

8/16: Housing starts

8/21: Existing home sales

8/23: New home sales

8/26: Durable goods orders

8/29: GDP, international trade in goods

8/30: Personal income and outlays

percentage point to 3.7% in June. The number of unemployed persons increased slightly to 6.0 million in June (5.9 million in May). The labor participation rate was 62.9% and the employment-population ratio was 60.6% in June. The average workweek was unchanged at 34.4 hours for June. Average hourly earnings increased by $0.06 to $27.90. Over the last 12 months ended in June, average hourly earnings have risen 3.1%.

- **FOMC/interest rates:** As expected, the Federal Open Market Committee lowered interest rates by 25 basis points following its latest meeting in July. Lack of price inflation and slowing global economic growth underscored the Committee's decision to reduce the target range for the federal funds rate to 2.00%-2.25%. The vote to reduce rates was 8-2, with dissenting members opting to leave rates unchanged.
- **GDP/budget:** Economic growth appears to have slowed in the second quarter, according to the initial, or "advance," estimate of the gross domestic product. The second quarter grew at an annualized rate of 2.1%. The first quarter saw an annualized growth of 3.1%. Consumer prices and spending increased in the second quarter, rising 2.3% and 4.3%, respectively. Pulling the GDP down in the second quarter were negative contributions from fixed business investment (equipment, software, structures, etc.) and exports. The federal budget deficit was only $8.5 billion in June ($74.9 billion in June 2018). Through the first nine months of the fiscal year, the government deficit sits at $747.1 billion. Over the same period for fiscal year 2018, the deficit was $607.1 billion.
- **Inflation/consumer spending:** Inflationary pressures remain weak as consumer prices rose 0.1% in June and are up 1.4% over the last 12 months ended in June. Consumer prices excluding food and energy increased 0.2% in June and 1.4% since June 2018. In June, consumer spending rose 0.3% (0.5% in May). Personal income and disposable (after-tax) personal income climbed 0.4% in June, respectively.
- The Consumer Price Index increased 0.1% in June, the same increase as in May after rising 0.3% in April and 0.4% in March. Over the 12 months ended in June, the CPI rose 1.6%. Energy prices held overall consumer prices in check, falling 2.3% in June. Prices less food and energy rose 0.3% in June — the largest monthly increase since January 2018. Core prices (less food and energy) are up 2.1% over the last 12 months. In contrast, over the same period, the energy index has fallen 3.4%.
- According to the Producer Price Index, the prices companies received for goods and services rose 0.1% in June after increasing 0.1% in May and 0.2% in April. The index increased 1.7% for the 12 months ended in June. Prices for services increased 0.4%, offset by a 0.4% drop in prices for goods. The index less foods, energy, and trade services was unchanged in June after moving up 0.4% in May, 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 fell 1.7% in June after climbing 2.5% in May. Year-over-year, existing home sales are down 2.2%. Existing home prices continue to rise, as the June median price for existing homes was $285,700 — an all-time high. Existing home prices were up 4.3% from June 2018. Total housing inventory for existing homes for sale in June increased to 1.93 million (1.91 million in May), representing a 4.4-month supply at the current sales pace. Sales of new single-family houses rebounded in June, surging a robust 7.0% over May's revised total. Sales in May fell a whopping 8.2%. New home sales are now 4.5% ahead of their June 2018 estimate. The median sales price of new houses sold in June was $310,400 ($303,500 in May). The average sales price was $368,600 ($371,200 in May). Inventory at the end of June was at a supply of 6.3 months (6.7 months in May).
- **Manufacturing:** According to the Federal Reserve, industrial production was unchanged in June after increasing 0.4% in May. For the second quarter as a whole, industrial production declined at an annual rate of 1.2%, its second consecutive quarterly decrease. In June, a nearly 3.0% increase in motor vehicles and parts contributed significantly to the 0.4% gain in manufacturing output. Utilities fell 3.6% as milder-than-usual temperatures in June reduced the demand for air conditioning. Total industrial production was 1.3% higher in June than it was a year earlier. After falling 1.3% in May, durable goods orders jumped 2.0% in June. New orders for capital goods used by businesses to produce consumer goods rose 1.4% in June after plummeting 6.5% the prior month. Core capital goods (excluding defense and aircraft) increased 1.9% last month.
- **Imports and exports:** In another sign that global inflationary pressures continue to be weak, import prices fell 0.9% in June after recording no change (revised) in May. This is the first monthly decline since a 1.4% decline in December 2018. Import prices decreased 2.0% over the past 12 months — the largest year-over-year decline since import prices fell 2.2% for the 12-month period ended in August 2016. Import fuel prices declined 6.5% in June following a 2.3% advance the previous month. The June downturn was the first monthly decline in import fuel prices since a 13.3% drop in December 2018. Excluding fuel, import prices fell 0.3% for the second consecutive month in June. Export prices fell 0.7% in June after decreasing 0.2% in May. The June decrease was the largest monthly drop since export

prices declined 0.8% last November. Export prices decreased 1.6% for the year ended in June, the largest 12-month decline since prices plummeted 2.4% for the year ended in August 2016. The latest information on international trade in goods and services, out July 3, is for May and shows that the goods and services deficit was $50.5 billion, down from the $51.92 billion deficit in April. May exports were $210.6 billion, $4.2 billion higher than April exports. May imports were $266.2 billion, $8.5 billion more than April imports. Year-to-date, the goods and services deficit increased $15.7 billion, or 6.4%. Exports increased $5.1 billion, or 0.5%. Imports increased $20.8 billion, or 1.6%. The advance report on international trade in goods (excluding services) revealed the trade deficit to be $74.2 billion in June, down $0.9 billion from May's deficit. Goods exports in June were $3.7 billion less than the prior month, while imports of goods were $4.6 billion less than May's imports.

- **International markets:** Boris Johnson of the Conservative Party became Britain's new prime minister, vowing to lead that country out of the European Union even with no Brexit deal in place. Meanwhile, the European Central Bank gave indications it would cut short-term interest rates and restart a program of buying bonds in an attempt to stem the tide of the worsening European economy. In Japan, consumer prices stagnated in June and have risen a scant 0.7% since June 2018 — yet another sign of tepid global inflationary pressures. China's gross domestic product advanced at an annualized rate of 1.6% for the second quarter and at a 6.2% year-over-year rate. This growth has come despite the trade impasse with the United States.
- **Consumer confidence:** After showing signs of concern in June, the Conference Board Consumer Confidence Index® rebounded in July, up to 135.7 from June's 124.3. The Present Situation Index — based on consumers' assessment of current business and labor market conditions — increased from 164.3 to 170.9. The Expectations Index — based on consumers' short-term outlook for income, business and labor market conditions — increased from 97.6 in June to 112.2 in July.

Eye on the Month Ahead

Corporate earnings released in August, coupled with the ongoing trade negotiations between the United States and China, are likely to impact stock values. Interest rates will remain unchanged until at least September, when the Federal Open Market Committee next meets.

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.

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