

# Monthly Economic Update

September 2019

## THE MONTH IN BRIEF

The stock market had a tumultuous August, reacting to the sudden devaluation of the Chinese yuan and the escalation of the trade dispute between the U.S. and China. Ultimately, investors seemed more interested in risk aversion: the S&P 500 lost 1.81% for the month. Demand for bonds helped to send Treasury yields lower; prices of precious metals climbed. Away from the markets, monthly personal spending and retail sales gains were strong.<sup>1</sup>

## DOMESTIC ECONOMIC HEALTH

Tariffs and trade issues remained front and center in the Wall Street conversation. On August 1, the White House announced a 10% import tax on an additional \$300 billion of Chinese goods coming to U.S. shores. (Most of these products are so-called “final” consumer goods, like clothing and shoes.) In a nod to importers and retailers, the White House stated on August 13 that this 10% tariff would be delayed until December 15 for certain products: toys, consumer electronics, and other items that are big sellers during the holiday shopping season. Effective December 15, tariffs will impact nearly all Chinese imports to the U.S.<sup>2</sup>

China soon retaliated, and the U.S. quickly responded. On August 25, China unveiled a plan to place tariffs on an additional \$75 billion of U.S. goods. As part of the plan, import taxes on American-made cars and trucks would jump by 30%. Just hours later, the White House announced that the tariffs planned for September 1 and December 15 would rise by 5% to 15%, respectively, and that the 25% tariff currently in place on \$250 billion of Chinese imports would rise to 30% on October 1.<sup>2</sup>

A few summer statistics from Main Street seemed to contradict anxieties that the economy might be slowing down. Consumer spending advanced 0.6% in July, and that complemented July's 0.7% gain in overall retail sales. Core retail sales (which exclude auto and gas purchases) were up 1.0% in the seventh month of the year.<sup>3,4</sup>

A key measure of consumer confidence seemed strong: the Conference Board's monthly index was at 135.1 in August,

beating the 129.5 consensus forecast of a Reuters poll of economists. The CB's present situation sub-index (surveying consumers' view of the economy right now) hit 177.2, the best reading since November 2000.<sup>3,5</sup>

All this said, other indicators hinted that manufacturing activity might have hit a soft patch. The Institute for Supply Management's Purchasing Managers Index for the factory sector declined to half a point to 51.2 in July, and the federal government reported July retreats of 0.2% for industrial output, 0.4% for factory production, and 0.4% for core durable goods orders, which do not include the volatile transportation category (total durable goods orders, however, were up 2.1%). ISM's monthly PMI for the service sector also lost ground, slipping 1.4 points in July to 53.7.<sup>4</sup>

The labor market added 164,000 net new jobs during July, according to the Department of Labor. (The revised June number: 193,000.) Unemployment remained at 3.7%. The U-6 rate, which counts both the unemployed and underemployed, fell a respective 0.2% to 7.0%.<sup>4</sup>

The Bureau of Economic Analysis delivered its third ("final") estimate of second-quarter economic growth in late August: 2.0%. That number beat the 1.9% consensus forecast of economists polled by MarketWatch.<sup>3</sup>

Federal Reserve Chairman Jerome Powell's spoke on August 23 at the Kansas City Fed's annual Jackson Hole banking conference. Powell said the Fed was "carefully watching developments" and would "act as appropriate" if U.S. economic conditions weaken. The next Fed policy meeting is less than two weeks away. Wall Street wonders if Fed policymakers might be inclined to make a rate cut; comments from multiple Fed officials at Jackson Hole did not point to a consensus on that matter.<sup>6</sup>

## GLOBAL ECONOMIC HEALTH

On August 5, China shocked financial markets worldwide by devaluing its main currency, the yuan, to a level unseen since the 2008 credit crisis. The rationale for this move was clear: by cheapening the yuan, China could make its exports more affordable for American buyers, effectively countering tariffs. Reaction on Wall Street was swift: U.S. stocks had their worst day of the year. The Department of the Treasury immediately called China a "currency manipulator." With China's economy growing at its slowest pace in 30 years, this could invite greater inflation.<sup>7</sup>

In another surprise, Boris Johnson, the United Kingdom's Prime Minister, announced that Queen Elizabeth had agreed to a sudden, outside-the-box political idea. On August 28, Johnson said that he had asked the Queen to suspend Parliament for a month beginning in mid-September, with U.K. lawmakers reconvening on October 14. That would give Parliament two weeks to consider and approve a Brexit strategy. A no-deal Brexit – the kind Johnson favors – may have a better chance of passage under such a tight timeline.<sup>8</sup>

Also notable: the decline in government bond yields in key countries. Demand for bonds has sent prices of government-issued notes higher, and as a result, their interest rates have declined. Last month, roughly a quarter of the global bond market was invested in government notes bearing negative yields.<sup>9</sup>

## WORLD MARKETS

Many foreign indices took August losses, but there were some exceptions. In Russia, the Moex advanced 0.20%, and in Canada, the TSX Composite gained 0.22%. Mexico's Bolsa registered a major August gain, rising 4.31%.<sup>10</sup>

The emerging markets were hard hit last month. In fact, MSCI's Emerging Markets index took a 5.08% fall. MSCI's World index lost 2.24%. Hong Kong was beset by unrest, and its Hang Seng benchmark dove 8.60% for the month. China's Shanghai Composite fell 2.24%; South Korea's Kospi, 3.48%; the Singapore STI, 7.28%. Even Japan's Nikkei 225 slipped 4.63%. European benchmarks were also mostly in the red: Spain's IBEX 35 was 1.93%; Germany's DAX, 1.71%; the FTSE Eurofirst 300, 1.55%. The United Kingdom's FTSE 100 tumbled 5.75% last month. France's CAC 40 lost just 0.56%. Two losses to note in South America: Brazil's Bovespa declined 0.67%, and Argentina's Merval slid 41.49%.<sup>10,11</sup>

## COMMODITIES MARKETS

At the closing bell on the month's last trading day (August 30), an ounce of gold was worth \$1,529.20 on the New York Mercantile Exchange; an ounce of silver, \$18.48. Gold gained 7.76% in August, and silver, 12.92%. Another key precious metal, platinum, advanced 6.86%. One of the world's key semi-precious metals, copper, fell 4.43% last month.<sup>12</sup>

West Texas Intermediate crude oil ended August at \$55.16 per barrel on the NYMEX, down 4.72% on the month. The value of unleaded gasoline fell 19.68%. Heating oil lost 6.42%, but natural gas increased 1.83%. Turning to crops, losses were prevalent: soybeans lost 0.61%; coffee, 5.23%; cotton, 6.86%; wheat, 7.50%; cocoa, 7.53%; sugar, 8.19%; corn, 10.81%. The U.S. Dollar Index rose 0.41% for the month to 98.92.<sup>12,13</sup>

## REAL ESTATE

Mortgage rates went lower in August, influenced by declining bond yields. In Freddie Mac's August 29 Primary Mortgage Market Survey, the interest rate for the average 30-year, fixed-rate home loan was 3.58%. A 15-year, fixed-rate home loan carried an average interest rate of 3.06%. Back on August 1, they were respectively at 3.75% and 3.20%.<sup>14</sup>

*30-year and 15-year, fixed-rate mortgages are conventional home loans generally featuring a limit of \$484,350 (\$726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.*

As for home buying, the National Association of Realtors said that existing home sales improved by 2.5% in July, a nice change from the 1.3% (revised) retreat of June. According to the Census Bureau, new home sales fell 12.8% during July, as opposed to a 20.9% climb a month earlier.<sup>4</sup>

The latest 20-city S&P/Case-Shiller Home Price Index (June) measured 2.1% year-over-year home price appreciation, down from 2.4% in the prior edition. Housing starts fell 4.0% in July, but the Census Bureau did report an 8.4% increase for building permits.<sup>4</sup>

## LOOKING BACK, LOOKING FORWARD

August was notable for its volatility. The S&P 500 gained or lost 1% during nine of the first 17 trading days of the month. (Back in 2017, there were eight such trading sessions all year.)<sup>15</sup>

All three of the major U.S. equity indices lost ground last month. The S&P ended August at 2,926.46; the Dow Jones Industrial Average, at 26,403.28; the Nasdaq Composite, at 7,962.88.<sup>16-18</sup>

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2018
DJIA	+13.19	-1.72	-5.63

NASDAQ	+20.01	-2.60	-3.88
S&P 500	+16.74	-1.81	-6.24

BOND YIELD	8/30 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	1.50	2.02	2.86

Sources: cnnbusiness.com, wsj.com, treasury.gov – 8/30/19<sup>16-20</sup>

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

With the third quarter about to give way to the fourth, investors are mulling a few questions. Can the U.S-China tariff fight be resolved this year or next? Is the economy actually showing signs of decelerating? Will Treasury yields stabilize? What will the Federal Reserve do? The answers to some of these questions may take months to surface. This month, Wall Street may see more of the choppiness that characterized August. The market is still a few weeks away from the next earnings season, so fundamental economic indicators (hiring, consumer spending, consumer confidence, manufacturing and service sector growth, retail sales) may exert some influence on stocks. Investors worldwide are waiting to see what direction the Fed will take with interest rates when it meets on September 17-18.

## UPCOMING RELEASES

Here are the major scheduled news items and events for the rest of the month: the August ADP employment report and Challenger job-cut report (9/5), the Department of Labor's latest monthly jobs report (9/6), the August wholesale inflation numbers (9/11), the August consumer inflation reading (9/12), August retail sales and the preliminary September University of Michigan Consumer Sentiment Index (9/13), the next Federal Reserve monetary policy announcement and subsequent press conference, plus numbers on August housing starts and building permits (9/18), August existing home sales (9/19), the Conference Board's September Consumer Confidence Index (9/24), August new home sales (9/25), August pending home sales and the federal government's third estimate of second-quarter economic expansion (9/26), and then August consumer spending and durable goods orders, plus

## the final September University of Michigan Consumer Sentiment Index (9/27).

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The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets and does not include emerging markets. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The FTSE Straits Times Index (STI) is a capitalisation-weighted stock market index that is regarded as the benchmark index for the Singapore stock market. It tracks the performance of the top 30 companies listed on the Singapore Exchange. The Nikkei 225, more commonly called the Nikkei, the Nikkei index, or the Nikkei Stock Average, is a stock market index for the Tokyo Stock Exchange. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The DAX is a blue-chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The FTSEurofirst 300 Index comprises the 300 largest companies ranked by market capitalisation in the FTSE Developed Europe Index. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Merval Index (Mercado de Valores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional.

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