JUNE 2019

TRADE TALKS PRESSURE MARKETS IN MAY

Stocks broadly fell in May on trade rhetoric. While trade negotiations have been ongoing with China, Trump has announced new tariffs on Mexico in an attempt to bring Mexico to the table as a willing participant to help on immigration and southern border security initiatives. Policy and politics aside, opening a new round of trade battles poses threats to equity markets and the overall economy as it could substantially disrupt the domestic economy, the manufacturing sector in particular, and ultimately force the Fed into tapping resources that could otherwise be saved for a rainy day (better suited for an economic slowdown). These fears were seen in market performance as all of the major domestic indices fell in May with the broad Standard and Poor's 500 Index off 6.58%, the NASDAQ off 7.93%, and small cap stocks, as measured by the Russell 2000 Index, off 7.90%. For the year, however, the broad Standard and Poor's 500 Index remains 9.78% higher, the NASDAQ is up 12.33%, and small cap stocks are 8.67% ahead of their year-end close.

During last month, the trade fears that stoked volatility sent investors flocking to safe haven Treasuries which have moved wildly higher, thereby sinking interest rates. The benchmark 10-year Treasury rate fell by 37 basis points to 2.13%, while the short-term 3-month Treasury Bill rate fell to 2.38%. This move has caused another (and steeper) inversion of the yield curve (click here for our explanation of, and thoughts on, the yield curve inversion). With the 3-month to 10-year yield again inverted, and business confidence stressed by Chinese trade tensions and the newly announced tariffs on Mexico, we see added pressure being placed on the Fed to potentially reverse course on rates.

Coming in to June, we are eyeing progress on trade talks with China and closely monitoring economic data. Since consumers are the primary engine of economic growth, the May jobs report (due out on the 7th) will be in focus and scrutinized closely. Weaker than expected hiring or payroll numbers would put pressure on equities and on the Fed, as well. While a trade deal with China could propel markets back to their recent highs, in the absence of such an announcement, any data that could be interpreted negatively could be the catalyst to continue the markets' recent pull back.

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

LAST MONTH'S KEY ECONOMIC DATA

EMPLOYMENT

Total employment shot up by 263,000 in April after adding 189,000 (revised) new jobs in March. The unemployment rate fell 0.2% to 3.6% in April, the lowest rate since December 1969. The number of unemployed persons decreased by 387,000 to 5.8 million. The labor participation rate dropped slightly to 62.8%. Average hourly earnings also increased by $0.06 to $27.77.

FOMC/INTEREST RATES

The Federal Open Market Committee has kept rates unchanged, as expected, citing strong economic data.

GDP

The second 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.

INFLATION AND CONSUMER SPENDING

The *Consumer Price Index* increased 0.3% in April. Over the last 12 months, CPI rose 1.6%. Core prices, which excludes food and energy prices, rose 0.1% for the month and 2.1% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services rose 0.2% in April. Producer prices have increased 2.2% over the 12 months ended in April.

HOUSING

Existing home sales fell 4.0% in April, after falling 4.8% in March, after a surge of 11.8% in February. Year over year, existing sales are down 4.4%. The median price for existing homes in April was $267,300, up from $259,400 in March.

MANUFACTURING

Industrial production edged down 0.5% in April following a 0.1% fall in March. Output is now reported to have declined 1.9% at an annual rate in the first quarter.

IMPORTS AND EXPORTS

The latest information on international trade in goods and services, out May 9, is for March and shows that the goods and services deficit increased to $50.0 billion, up from the $49.3 billion deficit in February. March exports were $212.0 billion, $2.1 billion more than February exports. March imports were $262.0 billion, $2.8 billion more than February imports. Year-to-date, the goods and services deficit decreased $5.8 billion, or 3.7%, from the same period in 2018.

INTERNATIONAL MARKETS

European Union elections held last week saw the highest turnout in 27 years and resulted in big wins for the Brexit Party and liberal Democrats in a devastating turn for conservatives. Following PM May's resignation, the prospects of a negotiated Brexit deal are slim. As it stands, Great Britain will leave the EU on October 31st.

CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, jumped from 129.2 in April to 134.1 in May.

Bradley H. Bofford, CLU®, ChFC®, CFP®
Managing Director, Partner
973-582-1002
bbofford@hightoweradvisors.com

Michael Flower, CFP®
Managing Director, Partner
973-582-1004
mflower@hightoweradvisors.com

Daniel Trout
Partner
973-582-1006
dtrout@hightoweradvisors.com

Steven Gelber, AIF®
Associate Wealth Advisor
973-582-1015
sgelber@hightoweradvisors.com

Andrew Olivier, CFP®
Associate Wealth Advisor
973-582-1005
aolivier@hightoweradvisors.com

HIGHTOWER
FINANCIAL PRINCIPLES, LLC

FINANCIAL PRINCIPLES, LLC
A HIGHTOWER WEALTH MANAGEMENT PRACTICE

310 PASSAIC AVENUE, SUITE 203, FAIRFIELD, NJ 07004
505 FIFTH AVENUE, 4TH FLOOR, NEW YORK, NY 10017
973-582-1000
WWW.FINANCIALPRINCIPLES.COM

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

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.