



AUGUST 2019

## FED ADJUSTS COURSE, MARKETS HIT HIGHS, BUT ALL EYES ON TRADE

After a remarkably strong First Half start, the broad market, as measured by the Standard and Poor's 500 Index, hit a new all-time high in July. The market, as measured by the Standard and Poor's 500 Index, settled up 1.44% for the month. Markets were largely placid awaiting the Fed statement.

In what has largely been referred to as the most abrupt reversal of the Fed, the Committee cut the target federal funds rates for the first time in more than a decade. While many were hoping for a 50-basis point cut, the target federal funds rate was lowered by 25-basis points to between 2% and 2.25%. The Fed will also end their unwinding of their balance sheet, another policy tightening program. Chairman Jerome Powell and the Committee faced the unusual task of explaining a rate cut despite strong economic data. Powell's more neutral statement sent markets (and President Trump) reeling after referring to the cut as a "midcycle adjustment" and not the start of a rate-reducing trend. During the post-statement press conference Powell clarified the statement (and quelled markets) by explaining that he did not say there would only be one rate cut, just that this was not the start of a rate-cutting cycle which would go on for a period of time, such as in a recession. While we view this rate cut as more of an effort to appease market expectations and sidestep volatility and downside market movement than a necessary action, we would not be surprised by an additional cut later this year.

With the Fed taking a more dovish stance, corporations issuing guidance with more muted earnings expectations, and a bipartisan budget deal hammered out that would avoid a debt-ceiling show down and possible government shutdown, the stage was being set for a calm Fourth Quarter with the potential for upside surprises. However, trade grabbed headlines again to start the month as President Trump announced a new 10% tariff on \$300 billion more in Chinese goods to start September 1st. News of the break in negotiations and new tariffs sent oil sharply lower and stocks down more than 2% to start August. As we head into summer's end, we see trade as grabbing the spotlight and being the potential scapegoat for markets to take a little bit of breathing room and put further pressure on the Fed.



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## LAST MONTH'S KEY ECONOMIC DATA

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### EMPLOYMENT

We added 164,000 jobs in July and the unemployment rate has remained unchanged at 3.7%. The number of unemployed persons is little changed at 6.1 million. The labor participation rate is up slightly to 63.0%.

### FOMC/INTEREST RATES

The Federal Open Market Committee has cut rates by 25-basis points in their first cut in over a decade.

### GDP

GDP rose 2.1% in the second quarter, down from 3.1% in the first quarter.

### INFLATION AND CONSUMER SPENDING

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

According to the *Producer Price Index*, the prices companies receive for goods and services rose 0.1% in June. Producer prices have increased 1.7% over the 12 months ended in June.

### HOUSING

Existing home sales fell 1.7% in June. Year over year, existing sales are down 2.2%. The median price for existing homes in June was \$285,700, an all-time high.

### MANUFACTURING

Industrial production was flat in June with a slump in utilities being offset by gains in factories and mining output.

### IMPORTS AND EXPORTS

US trade deficit fell slightly in June as both imports and exports fell. The trade deficit slipped 0.3% to \$55.2 billion.

### INTERNATIONAL MARKETS

Boris Johnson has taken over as Prime Minister of the United Kingdom and Leader of the Conservative Party. The pound has slipped on concerns the UK may leave the European Union without a Brexit deal in place.

### CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, jumped to 135.7, up from 124.3 in June.



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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.