SEPTEMBER 2019

# VOLATILITY TICKS UP AS TRADE TENSIONS ESCALATE

The tone for the month of August was set on the very first day by a Tweet from President Trump announcing his intention to impose a 10% tariff on the remaining approximately $300billion of Chinese imports that had not yet been subjected to tariffs. After an earlier "ceasefire" in the tradewar with China, the news took markets by surprise. In retaliation, China announced that it would also increase tariffs on roughly $75billion of US imports, mainly agricultural goods, oil, and automobiles. It was not until the end of the month that both world leaders took a more conciliatory tone, but the damage to business and investor sentiment had already been done. The renewed escalation of trade tensions and the economic consequences of same triggered profit-taking which sent the Standard and Poor's 500 Index 1.6% lower for the month. International markets slipped further.


As investors sought safe havens, global bond yields saw pressure as prices rallied. The 30-year US treasury yield dropped below 2% for the first time ever. The treasury yield curve inverted again adding fuel to fears of a global economic slowdown and recession. We remind investors that a recession is not marked by the inversion of a yield curve. A recession is defined as two consecutive quarters of negative GDP growth, of which we currently have not yet had one quarter of negative GDP growth. The yield curve inversion is only one warning sign of recession (and it is generally an 18-24 month in advance warning sign). While a slow down of the economy is here, we are not currently in recession, nor do we foresee a recession in the short-term.

Over the past several months our team has, where appropriate, derisked in client portfolios as markets continued to hit all-time highs. We are continually monitoring the markets and economic conditions and while no one has a crystal ball to forecast the exact time of a recession, we will address making any appropriate changes with clients when we believe economic conditions warrant. In the interim, we are counseling clients to be prepared for choppier markets with more volatility.

## FOCUSED ON YOUR FINANCIAL INDEPENDENCE

# LAST MONTH'S KEY ECONOMIC DATA

## 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%. August numbers are scheduled to be released on September 6.

## FOMC/INTEREST RATES

The Federal Open Market Committee cut rates by 25-basis points in their first cut in over a decade. We await the Committee's next meeting on September 17-18.

## GDP

Second estimates show GDP rose 2.0% in the second quarter, down from 3.1% in the first quarter.

## INFLATION AND CONSUMER SPENDING

The *Consumer Price Index* increased 0.3% in July. Over the last 12 months, CPI rose 1.8%. Core prices, which excludes food and energy prices, rose 2.2% year over year.

According to the *Producer Price Index*, the prices companies receive for goods and services rose 0.2% in July. Producer prices have increased 1.7% over the 12 months ended in July.

## HOUSING

Existing home sales rose 2.5% in July, after a decline in June. Year over year, existing sales are up 0.6%. The median price for existing homes in July was $280,800, off a recent all-time high.

## MANUFACTURING

Industrial production was down 0.2% in July with a slump in mining and construction.

## 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. July data is not yet available.

## INTERNATIONAL MARKETS

In Europe, headlines have been dominated during August by weak economic data, especially in Germany, and by increasing political uncertainties. In the UK, Boris Johnson has not managed to solve the Brexit impasse, which is weighing on the UK economy, the British pound, and on sterling.

## CONSUMER CONFIDENCE

Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, declined slightly in August to 135.1 from 135.7 in July.


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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.