Market Summary – August 6, 2018

For the week ending August 3

This summary is provided by BMT Wealth Management.

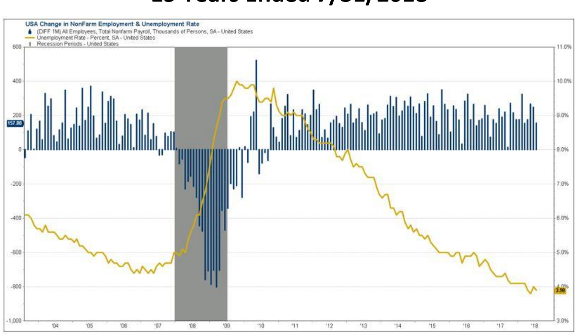
Strong Economic Data and the Fed

The strength of the U.S. economy was substantiated by the July 27 release of second quarter GDP (4.1% growth), and it was further supported by favorable economic data released last week.

For example, The Conference Board Consumer Confidence Index® that was reported on Tuesday (July 31) came in strong at 127.4, topping the median forecast and the previous report of 127.1. In addition, after some weaker housing reports, June Pending Home Sales rebounded from a weak spring, rising +0.9%.

July employment data was released on Friday (Aug. 3). It indicated that non-farm payroll employment rose by 157,000 new jobs, and the unemployment rate declined to 3.9%. The payroll employment number was below most forecasts, but the months of May and June were revised upward by an additional 59,000 new jobs, creating a very strong three-month average run rate of 224,000 new jobs per month.

Non-Farm Employment and Unemployment Rate: 15 Years Ended 7/31/2018



Source: FactSet, Inc.

The Federal Open Market Committee (FOMC) completed its two-day meeting on Wednesday (Aug. 1) and, as expected, left short-term interest rates unchanged in a range of 1.75% to 2.00%. The FOMC characterized economic growth as "strong," with inflation falling around its 2% target.

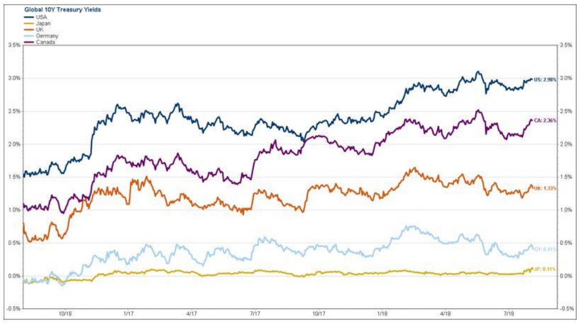
There seems to be a cadence of predictability to Fed actions under Chairman Jerome Powell, and it is expected that the Fed will raise rates by 25 basis points (0.25%) at its September meeting (Sept. 25-26).

Global Bond Yields on the Rise

Global bond yields, one reason for the grudgingly slow move upward in U.S. Treasury bond yields, have been moving higher recently.

Strategas Research Partners noted last week that the Japanese 10-year yield (gold line in the graph below) had its sharpest rise – 7 basis points, or 0.07% – in two years. Over the last two weeks, Canadian 10-year yields (purple line) rose 18 basis points (0.18%), while UK (orange line) and German (light blue line) 10-year rates rose 10 basis points (0.10%) and 4 basis points (0.04%), respectively. The U.S. 10-year yield (dark blue line) has risen 11 basis points (0.11%) since July 19.

**Ten-Year Global Bond Yields:
Two Years Ended 8/3/2018**



Source: FactSet, Inc.

Ten-year U.S. Treasury yields have moved up close to the 3.0% level, after remaining under that threshold since late May. The improvement in global economic growth, higher inflation expectations, and the shift of central bank monetary policy across the globe have all contributed to this most recent upward move.

The One Trillion Dollar Club

Apple Inc. (AAPL), a member of the so-called "FAANG" trade, made stock market history on Thursday (Aug. 2) when it crossed the $1 trillion level in market capitalization. The stock was propelled by a strong earnings report for its fiscal third quarter that ended June 30, which was released after the market closed on Tuesday (July 31).

In the days preceding the Apple earnings announcement, the "FAANG" trade had underperformed. This group of stocks regained some footing in the wake of the positive report by Apple, however, despite some less-than-stellar reports by a couple of its constituents.

Earnings and Interest Rates

Earnings reporting season is in the wind-down phase, with 80% of S&P 500 companies having reported. Thus far this quarter, earnings are up a very strong 24% on a year-over-year basis, and corporate revenues have risen 9.8% over the same period. The rise in market volatility, despite strong earnings growth, has been largely a function of trade-war rhetoric and less accommodative central bank policies.

The investment climate remains favorable amid expanding economic growth and strong corporate earnings. Late-cycle investing poses additional challenges, though, as equity correlations often fall and interest rates typically rise. These dynamics place even greater emphasis on sound asset allocation and security selection.

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