MarketUpdate

Strong August for global markets

August was a solid month for global markets; all three major U.S. indices ended the period on a positive note. The S&P 500 Index, Dow Jones Industrial Average, and Nasdaq were up 0.31 percent, 0.65 percent, and 1.43 percent, respectively.

Fundamentals drove the positive equity performance. According to FactSet, as of September 1, 73 percent of S&P 500 companies had announced higher-than-expected earnings and 70 percent had reported higher-than-expected sales. This led to a blended earnings growth rate of 10.3 percent for the second quarter.

Political concerns and a strengthening euro led to a small 0.04-percent decline for the MSCI EAFE Index. The MSCI Emerging Markets Index had a very strong month, though, gaining 2.27 percent. Both international indices stayed above their technical trend lines in August—a positive sign.

The Bloomberg Barclays Aggregate Bond Index was up a very respectable 0.90 percent, as the yield on the 10-year Treasury declined from 2.26 percent at the start of August to 2.12 percent by month-end. The Bloomberg Barclays U.S. Corporate High Yield Index fared slightly worse, declining 0.04 percent.

Growth faster than expected

The economic news in August pointed to faster growth ahead. Gross domestic product growth for the second quarter was revised upward, from 2.6 percent to 3 percent on an annualized basis. Higher consumer spending led to the revision, which suggests that high consumer confidence is translating into faster spending.

According to the July Conference Board survey, consumer confidence continues strong and is at the second-highest level since 2001. Personal spending was up 0.3 percent in August, and the July figure was revised upward.

Retail sales data rose 0.6 percent in July. Seeing the hard data start to converge with positive soft data is very encouraging.

Business confidence also continues to improve. The most recent Institute for Supply Management Manufacturing survey rose to a six-year high in August, as manufacturers added more jobs and produced more goods.

The U.S. International Trade in Goods and Services report for August showed that the U.S. trade deficit had narrowed—due to an increase in exports.

Figure 1. U.S. Exports of Goods, 2007–2017

Source: Census Bureau/Haver Analytics

After a steady decline in 2014 and 2015 and a recent low in January 2016, the export of U.S. goods has been on the rise (Figure 1).

Headline durable goods orders data for August was disappointing, down 6.8 percent. But the headline number depends on airplane orders, which bounce around from month to month. The core durable goods number—which excludes airplane orders—was up a solid 0.5 percent in August compared with July.

Job growth disappoints, but trends remain strong

Only 156,000 new jobs were added in August—below the 180,000 expected and down from the 189,000 jobs created in July. Wage growth also disappointed, suggesting even more weakness in labor demand.

Although this was a weak report, it was not a disaster. And it comes after a strong run. A review of jobs data for past years suggests that August employment figures often come in weak only to be revised upward later.

Politics, in the U.S. and abroad, is the real risk

In late August, the real risks to the economy came from politics. In the U.S., the next major political event is the debt ceiling vote. Expect to hear quite a bit about this issue throughout September.

The other major risk was from geopolitics. The launch of North Korean ballistic missiles over Japan near month-end is among the latest events in the ongoing tensions between the U.S. and North Korea. It caused markets in Asia and Europe to drop before recovering. Further developments may lead to more volatility.

Falling into faster growth

As summer wanes, the U.S. economy appears to be in good shape. Strong fundamental and technical support for equity markets, combined with solid economic data, paints the picture of an economy that continues to move forward.

In the short term, political risks have the potential to cause more market volatility. But should situations worsen, the U.S. and global economy are well positioned to weather most problems. As always, a well-diversified portfolio focused on the long term is the best way to meet financial goals.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

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