

Investment Weekly

August 14, 2017

Economic Recap

In a week with few economic reports, North Korean tensions filled the gap. Anxieties about what North Korea might do and how the United States might respond finally broke the extreme calm that has prevailed in the markets since May.

Market prices rarely pull back unless there is legitimate risk, but absent armed conflict, the increased tensions surrounding Korea should not have a major, long-term impact on the markets. And even if conflict does erupt, history suggests that market losses might be moderate. Germany's invasion of France and Pearl Harbor were followed by bear markets, but North Korea's invasion of South Korea caused the S&P 500 to drop only 13%. While major world conflicts can cause significant financial declines, the response to more-limited conflict should be less severe.

Economically, the week's reports showed more signs of moderate growth. Inflation reports were on the soft side in the United States, Germany, France, Italy, Spain, Portugal and China. Industrial reports in Germany, the United Kingdom and Japan were also weak. To this point, the risk of recession remains low, yet economies around the world have still not overcome the sluggishness that has defined the economic recovery since 2009.

Economic Calendar (U.S.)

Tuesday – Import and Export Prices, Housing Market Index
Wednesday – FOMC Minutes, Housing Starts
Thursday – Industrial Production, Jobless Claims
Friday – Consumer Sentiment

Economic Calendar (International)

Monday – EZ Industrial Production
Wednesday – IT GDP, EZ GDP Flash
Thursday – EZ HICP, Merchandise Trade & ECB Minutes

Interest Rates & Yields

Rate	Current	1 Month	1 Year
Effective Federal Funds Rate	1.16%	1.16%	0.40%
Target 90-day T-bill	1.01%	0.99%	0.27%
U.S. 2-yr Trsy Yield	1.31%	1.36%	0.71%
U.S. 10-yr Trsy Yield	2.22%	2.33%	1.51%
U.S. 30-yr Trsy Yield	2.81%	2.92%	2.23%
U.S. 5-yr Muni Yield	1.27%	1.53%	1.00%
Investment Grade Yield	3.53%	3.58%	3.27%
High Yield	5.84%	5.77%	6.36%

Financial Market Recap

Last week was an interesting one in equity markets with some economic data being released coupled with amped-up rhetoric coming out of North Korea and the White House.

Broadly speaking, the tense situation between the U.S. and North Korea led to de-risking among market participants with equities across the globe trading lower, while safe-haven assets like gold and treasuries were supported by spooked investors. In fact, the S&P 500 had its worst week since March earlier this year as all sectors declined sans consumer staples, which represent a flight to safety within the equity asset class.

While the situation between North Korea and the U.S. roiled equity markets, investors were somewhat encouraged to hear the Foreign Minister of Russia, Sergei Lavrov, along with China call for de-escalation. In addition, the discovery by the Associated Press that back-channel negotiations are alive between the U.S. and North Korea eased tensions somewhat.

Toward the end of the week, both the Producer Price Index (PPI) and Consumer Price Index (CPI) numbers came in below expectations, which indicated lower inflation expectations. While not necessarily good news, the market is now pricing in a lower probability that the Fed raises rates, and a more dovish Fed seems to be driving equities higher, so net-net, stocks rebounded somewhat last Friday.

To recap for last week, the S&P 500 lost 1.4% and small-caps dropped 2.7%. Internationally, developed markets and emerging markets both lagged. The yield on the 10-year U.S. Treasury note finished the week at 2.22%, down on the week.

Index Returns

Index	WTD	MTD	YTD	1-Yr.
S&P 500 Large Cap	-1.37%	-1.06%	10.40%	14.02%
S&P 400 Mid Cap	-2.27%	-2.76%	3.96%	11.39%
S&P 600 Small Cap	-2.73%	-3.73%	-0.10%	12.94%
S&P Developed Mkts ex-U.S.	-1.58%	-1.18%	15.91%	14.79%
S&P Emerging Markets	-1.88%	-1.44%	21.82%	17.33%
Bloomberg Commodity	0.50%	-0.82%	-4.36%	-0.33%
Barclays U.S. Aggregate	0.24%	0.41%	3.14%	0.27%
Barclays Municipals	0.31%	0.47%	4.90%	0.79%
Barclays U.S. High Yield	-0.75%	-0.71%	5.34%	8.89%
HFRX Eq. Wgt. Hedge Funds	-0.35%	-0.45%	2.63%	4.39%

All data as of market close: 08/11/2017

Source: Bloomberg

Key Private Bank



The information and recommendations contained herein is compiled from sources deemed reliable but is not represented to be accurate or complete. Data sources include Bloomberg, S&P Capital IQ, and Econoday.com. In providing this information, neither KeyBank nor its affiliates are acting as your agent or is offering any tax, accounting, or legal advice. ©2017 KeyCorp. KeyBank is Member FDIC. 170213-193630

Investment products are: NOT FDIC INSURED • NOT BANK GUARANTEED • MAY LOSE VALUE • NOT A DEPOSIT • NOT INSURED BY ANY STATE OF FEDERAL AGENCY