

Investment Weekly

July 31, 2017

Economic Recap

The Fed reiterated its plan for more rate hikes and a smaller balance sheet despite evidence of still-sluggish U.S. growth. Although the 2.6% GDP quarterly U.S. growth report largely met expectations, the y/y increase fell short. The preliminary Purchasing Manufacturing Index (PMI) showed a stronger outlook for manufacturing, but still below that of similar readings in overseas economies. Durable goods orders were largely unchanged after excluding the volatile transportation orders. On the optimistic side, the Conference Board survey of consumer confidence offered hope for stronger consumer spending. While the aging U.S. economic cycle shows few signs of significant slowing, it has thus far frustrated hopes for significantly faster growth.

International economic reports showed signs of converging international growth. As the weaker U.S. PMI reading improved, the strong international readings in Germany and for the Eurozone as a whole moderated. Japan's PMI, which was not as extreme, changed very little. GDP growth also showed some convergence. France's GDP, which has not grown faster than 1.3% for years, reported growth of 1.8%. U.K. GDP growth was also 1.7% y/y, although that economy may still be weakening. Stronger international growth, and its effect on the U.S. dollar, should be favorable for international equity returns.

Economic Calendar (U.S.)

Monday – Chicago PMI
Tuesday – PMI Manufacturing Index
Wednesday – ADP Employment Report
Thursday – Jobless Claims
Friday – Employment Situation

Economic Calendar (International)

Monday – EZ Unemployment Rate, IT CPI/PPI
Tuesday – EZ GDP Flash, RBA Announcement
Thursday – BoE Announcement & 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	1.03%	0.98%	0.24%
U.S. 2-yr Trsy Yield	1.35%	1.38%	0.66%
U.S. 10-yr Trsy Yield	2.29%	2.30%	1.45%
U.S. 30-yr Trsy Yield	2.90%	2.83%	2.18%
U.S. 5-yr Muni Yield	1.39%	1.45%	1.03%
Investment Grade Yield	3.49%	3.52%	3.30%
High Yield	5.59%	5.58%	6.50%

Financial Market Recap

Markets ended mixed last week amid caution ahead of corporate earnings, Senate votes on health-care reform, the FOMC's latest policy directive, a rally in crude oil prices and the advance estimate for 2Q GDP. Six out of eleven sectors of the S&P 500 posted gains for the week, with the telecom, energy and real estate sectors showing relative strength, while the health care, technology and industrials sectors lagged.

During the week, the FOMC unanimously voted to keep the fed funds target range at 1.00%-1.25%. Regarding the central bank's \$4.5 trillion balance sheet, the Fed indicated that it expects to begin the paring process "relatively soon", which has been largely interpreted as September. The CME Fed Watch Tool now points to the March 2018 FOMC meeting (from December) as the most likely time for the next rate-hike announcement, with an implied probability of 58.2%.

Also of note this past week, crude oil prices rallied following news that Saudi Arabia will limit its oil exports in August, below the level it produced a year ago. In addition, Nigeria, which was originally exempt from the OPEC-led production cut agreement, has pledged to limit its exports. The EIA's latest crude inventory report was also bullish, showing a larger than expected draw in U.S. crude stockpiles for the week.

For the week, the Dow Jones Industrial Average closed up 1.2%; the S&P 500 closed unchanged; and the NASDAQ Composite lost 0.2%. Overseas, the S&P Europe index gained 0.5% and the S&P Asia Pacific index closed down 0.3%. The yield on the 10-year U.S. Treasury note was at 2.29%, up 5 bps for the week. The dollar index was down 0.6% for the week. Crude oil rose 8.8%, to \$49.76 a barrel. Gold traded up 1.2% at \$1,269.93/ounce.

Index Returns

Index	WTD	MTD	YTD	1-Yr.
S&P 500 Large Cap	-0.02%	2.01%	10.42%	13.73%
S&P 400 Mid Cap	-0.65%	0.90%	6.13%	13.01%
S&P 600 Small Cap	-0.37%	1.07%	3.23%	16.27%
S&P Developed Mkts ex-U.S.	0.40%	2.79%	17.04%	17.44%
S&P Emerging Markets	0.51%	5.79%	23.28%	23.20%
Bloomberg Commodity	1.92%	2.05%	-3.32%	0.56%
Barclays U.S. Aggregate	-0.11%	0.43%	2.72%	-0.51%
Barclays Municipals	-0.13%	0.77%	4.36%	0.21%
Barclays U.S. High Yield	0.16%	1.10%	6.08%	10.94%
HFRX Eq. Wgt. Hedge Funds	0.13%	0.74%	3.12%	5.30%

All data as of market close: 07/28/2017

Source: Bloomberg

Key Private Bank



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