

## Stone's Weekly Market Guide - Week of June 3, 2018



**Chart of the Week:** Is value really underperforming? The S&P 500 Value (SVX) index significantly underperformed the S&P 500 (SPX) for the past year. Looking at smart beta or factor value could paint a different picture though with both the iShares MSCI Value Factor (VLUE) and Alpha Architect U.S. Quant Value (QVAL) ETFs outperforming. Clues about the performance difference: each has their own methodology for measuring value, plus VLUE and QVAL have significantly fewer holdings than SVX. Those investing in value smart beta should do their due diligence. Disclosure: I currently own QVAL.

### Week in Preview:

- The June 12 summit between N. Korea and the U.S. is back on again. Japan's PM Abe visits President Trump with the summit and trade likely high on his list of topics. Italian politics should take a backseat this week with a coalition government being formed after an ugly start to last week. This avoids short-term issues for Italy, but the euroskeptics are in power and the interactions with the European Commission will need to be monitored as there still remains a possibility of another euro crisis brewing. Spain's new PM Sánchez was sworn in after a corruption scandal doomed the previous administration, but his hold on power looks tenuous and the Catalan separatist issue has intensified again. Spain should hold less risk for the markets because their economic growth has bounced back since the financial crisis, unlike Italy's economy.
- U.S. data: April factory orders kick off a sparser week for data. May ISM Non-Manufacturing will likely provide another data point that the U.S. economy is strengthening. Markets continue to price in a 100% chance of a Fed hike on June 13. The Apple (AAPL) developers' conference is being held.
- Eurozone data: April retail sales are expected to improve to 1.7%, while producer inflation (PPI) should move higher to 2.4% year-over-year. Germany reports April trade data along with industrial production. U.K. has a number of May PMI reports (construction, services and composite) which will be watched to gauge the momentum of their economy.
- Asia data: Japan reports April personal income and spending data along with May services and composite PMIs. China has the May Caixin services and composite PMIs with both expected to hold at growth levels similar to last month. Chinese May trade data is also on the calendar and might be watched closely with the U.S. and China continuing trade talks this week.
- Central banks of Kazakhstan, Australia, India, Poland, Serbia, Turkey and Peru are expected to meet. Kazakhstan is expected to lower rates by 0.25% percentage points to 9.00%, while Turkey likely hikes their 1-week repo rate by 0.25% to 16.75% to defend their currency.

### Week in Review:

- Estimates of U.S. economic growth in 2Q rose with both the Atlanta and NY Fed estimates moving higher to 4.844% and 3.26% respectively. The strong May U.S. jobs data just added to the evidence of a strengthening U.S. economy, while European and Japanese economic growth is cooling somewhat.
- The S&P 500 was higher despite a rough start to the week due to Italian woes. Developed international and emerging market stocks were lower, but off the lows of the week. The 10-year U.S. Treasury yield moved lower to 2.9%, but regained the majority of its decline for the week. Oil prices were mixed, but energy stocks and MLPs rallied sharply.

This report is furnished for the use of Stone Investment Partners LLC and its clients and does not constitute the provision of investment or economic advice to any person. Persons reading this report should consult with their investment advisor regarding the appropriateness of investing in any securities or adopting any investment strategies discussed or recommended in this report. Statements regarding future prospects may not be realized. The information contained in this report was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy, timeliness, or completeness by Stone Investment Partners LLC. The information contained in this report and the opinions expressed herein are subject to change without notice. Past performance is no guarantee of future results. Neither the information in this report nor any opinion expressed herein constitutes an offer to buy or sell, nor a recommendation to buy or sell, any security or financial instrument. Stone Investment Partners LLC does not provide legal, tax, or accounting advice. ©2018 Stone Investment Partners LLC. All rights reserved.