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Stone Investment Partners LLC

Stone's Weekly Market Guide - Week of July 8, 2018

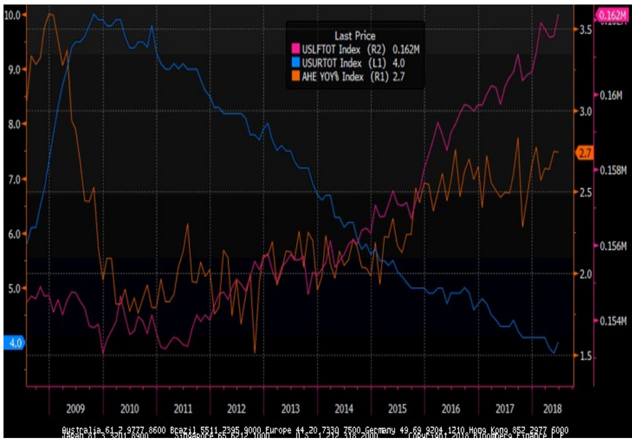

Chart of the Week: Did the June jobs report take the pressure off the Fed? The report last week was a magical combination of strong job growth with limited wage inflation. Payrolls increased a better than expected 213k jobs, while May was revised higher. Unemployment rose to 4.0% for a good reason with more people entering the workforce. Wage growth held steady at 2.7% year-over-year. Please see chart. The combination of increased workforce participation and tame wage growth helped ease worries that the Fed would need to accelerate the pace of rate hikes. Markets are currently pricing in an almost 82% chance of the next Fed hike on Sept. 26.

Week in Preview:

- Global trade disputes likely to continue to dominate headlines. U.S. tariffs against China totaling $34 billion began on Friday with China immediately retaliating with tariffs of a similar size. While the tariffs are currently only a small economic headwind relative to the large stimulus from the tax cuts and increased government spending, markets will be monitoring whether the trade conflicts continue to escalate.
- U.S. June CPI and the implications for Fed policy will be watched closely as both headline and core are expected to accelerate to 2.9% and 2.3% year-over-year respectively. The Atlanta and NY Fed estimates of 2Q GDP are at 3.838% and 2.79%.
- Prime 2Q earnings season really kicks off on Friday with the large banks. S&P 500 earnings and sales growth are expected to remain robust at 20% and 8% year-over-year respectively. The strongest earnings growth rates are expected in the energy, materials and technology sectors.
- Eurozone expects better May industrial production. Germany has July ZEW surveys with both current situation and expectations expected to soften slightly. The U.K. reports May industrial and manufacturing production. ECB president Draghi speaks on Monday and his comments will be watched closely for clues as to ECB policy. With recent economic data showing some improvement, he may try to pull forward the hike expectations to the Fall of 2019 instead of December.
- Asia data: Japan has June machine tool orders along with May Tertiary Industry index and industrial production. Chinese has June PPI and CPI. China also reports June trade data which might get more attention given the current trade conflict with the U.S.
- The central banks of Kazakhstan, Israel, Malaysia, Canada, Poland, South Korea, Serbia, Ukraine and Peru are scheduled to meet. Canada is widely expected to hike their policy rate by 0.25% to 1.50%.

Week in Review:

- Despite no real improvement in the tariff situation, the S&P 500 gained over 1.5% and small-cap stocks were extremely strong with 3.1% gains. Developed international stocks were up fractionally with Japan being particularly weak. EM stocks continued to be soft. The 10-year U.S. Treasury yield moved lower to 2.82% and the yield curve continued to flatten, again falling to the flattest level since the Great Recession.
- PM May got agreement from her cabinet regarding the U.K.'s goal for Brexit. The plan focused on a free trade area with the E.U. for products but not services. This is a soft Brexit plan in terms of products, but the political process is still early with U.K. internal struggles likely and the E.U. still has to agree.