

Stone's Weekly Market Guide - Week of June 10, 2018

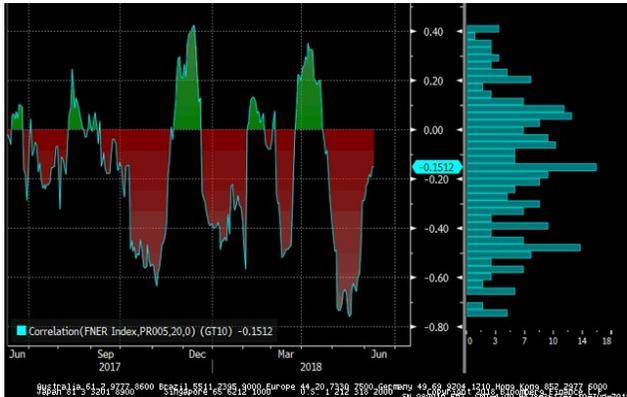


Chart of the Week: Are REITs neat again? REITs have underperformed the S&P 500 by a large margin over the past year: S&P 500 at +16.4% versus MSCI U.S. REIT at +2.0%. The chart shows that REIT returns have mostly been negatively correlated with 10-year Treasury bond yields, so rising yields have weighed on the sector. Interestingly, the correlation has become less negative recently even while Utilities remain significantly negatively correlated to yields. REIT valuations have improved with the dividend yield now at 4.34%. Disclosure: I currently own the Vanguard Real Estate ETF (VNQ).

Week in Preview:

- Geopolitics: The June 12 summit between N. Korea and the U.S. is sure to produce significant headlines. Brexit shows up twice with both a Monday meeting between the U.K. and E.U. negotiators and the U.K. parliament scheduled to discuss Brexit legislation on Tuesday. Trade worries may resurface after trade disagreements at the G-7 meeting. Italian politics may continue to intrude on market action.
- Major central banks will be watched closely by the markets. The Fed is almost guaranteed to raise rates on Wednesday with the markets already pricing in a 100% probability. More interesting will be the Fed's economic projections and "dot plot" for clues as to the pace of future hikes. The European Central Bank (ECB) won't change rates Thursday, but markets will be listening for timing regarding the end of asset purchases and beginning of rate hikes. The Bank of Japan (BoJ) closes out the week with no policy changes a near certainty, but interest will be paid to BoJ forecasts as economic data has softened recently.
- U.S. data: May consumer (CPI) and producer (PPI) inflation is on the calendar with both expected to accelerate from the previous month. May retail sales are on tap, supplying a look at consumer spending.
- Eurozone data: The ECB meeting dominates the calendar, but the May ZEW for Eurozone and Germany provide a read on confidence. U.K. has April unemployment along with May CPI and retail sales.
- Asia data: Japan reports May PPI along with the April tertiary industry index. China has May retail sales and industrial production.
- In addition to the previously highlighted central banks, the following central banks are expected to meet: Uganda, Iceland, Chile, Namibia, Georgia and Russia.

Week in Review:

- Estimates of U.S. economic growth in 2Q fell with both the Atlanta and NY Fed estimates moving to a still robust 4.557% and 3.08% respectively. May ISM Non-manufacturing rose more than expected and U.S. household net worth hit an all-time high in 1Q 2018.
- U.K. economic data has firmed a bit, leading to rising expectations of a rate hike from the Bank of England (BoE) in August. Markets are now pricing in over a 50% chance of an August 2 hike.
- The S&P 500 posted another good week with small-cap stocks even stronger. Developed international and emerging market stocks were higher with Japan gaining close to 2%. The 10-year U.S. Treasury yield moved higher to 2.95%, but the U.S. dollar was slightly weaker.

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