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# Stone Investment Partners LLC

## Stone's Weekly Market Guide - Week of July 29, 2018



**Chart of the Week:** What are the implications a U.S. and China trade war? This conflict has already shown up in emerging market stocks (MXEF) since tariffs were announced on March 22. Despite the better news of direct Europe and U.S. negotiations (see below), both Germany and Japan export heavily to both parties. Japan (MXJP) is even more exposed to the U.S. and China than Germany (MXDE), so the larger dips in Japanese stocks seem logical during trade induced sell-offs. Leverage to a positive outcome from this trade dispute can likely be found in Japanese and EM stocks, but risks remain. Disclosure: the author owns VWO, DXJS and JHDG.

### Week in Preview:

- The economic calendar is packed as we head into the August slowdown. U.S. data will be watched to see how much momentum the economy retained going into 3Q after posting the best GDP growth since 3Q 2014 with a 4.1% rate in 2Q. July ISM Manufacturing expected to hold steady at 55.0, then the employment report closes out the week. The unemployment rate is expected to fall to 3.9%, but wage growth has implications for the inflation outlook. The Fed should hold steady on Wednesday, but set the table for the next hike in September.
- 2Q earnings season continues with 140 S&P 500 companies reporting. Last week, healthcare and consumer discretionary boosted the overall earnings growth rate. S&P 500 earnings and sales growth are expected to remain robust at over 21% and over 9% year-over-year respectively. With 53% reporting so far: 83% and 77% of companies beat earnings and sales respectively.
- Markets will be watching for additional trade news. Last week, EC President Juncker and President Trump agreed to a reprieve on auto tariffs while negotiations are ongoing. In addition, increases in LNG and soybean imports into the EC are now on the table.
- Europe: June consumer inflation (CPI) is expected to hold steady at 2.0% year-over-year (Y/Y), while the unemployment rate should decline to 8.3%. The Bank of England (BoE) is widely expected to hike rates. The BoE's inflation report, economic growth and Brexit negotiations are all impacting the odds of future hikes. U.K. July manufacturing, services and composite PMI will give a look at economic momentum.
- Asia: Bank of Japan meets and the policy rate is almost certain not to be changed, but rumors have been swirling that a tweak to yield curve policy might be considered. China reports July PMI data both official and Caixin versions.
- The central banks of Kenya, Bulgaria, India, Brazil, Czech Republic, Mexico and Sri Lanka meet with both India and Czech Republic expected to hike their policy rates.

### Week in Review:

- The S&P 500 was higher, but small-cap stocks suffered. The 10-year U.S. Treasury yield moved higher to 2.95%. Both developed international and emerging stocks outpaced the gains in the S&P 500.
- The 10-2 yield curve flattened last week to 28 basis points, but our improved measure of 3 month 6 quarters forward – 3 month actually steepened to 94 basis points. Please see our [post](#) from last week for more details on the implications.

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