Bill Stone, CFA®, CMT
Chief Investment Officer
@ewstone
215-613-1118
Info@StoneInvestmentPartners.com

Stone Investment Partners LLC

Stone's Weekly Market Guide - Week of July 22, 2018

Yield Curve Inverts	S&P 500 @ Invert	Months Before Recession	Recession Length	S&P 500 Peak Date	Invert to Peak Duration	S&P 500 Invert to Peak	S&P 500 Decline Duration	S&P 500 Decline Invert to Trough	S&P 500 Decline From Peak
Sep-73	108.43	2	16	Jan-73	-8.7	-9.8%	21.0	-42.6%	-48.2%
Dec-78	96.11	13	6	Feb-80	13.7	23.2%	1.4	2.2%	-17.1%
Dec-80	135.76	7	16	Nov-80	-1.1	-3.4%	20.7	-24.6%	-27.1%
Jun-89	317.98	13	8	Jul-90	12.7	16.0%	2.9	-7.1%	-19.9%
Aug-98	1042.59	32	8	Mar-00	19.2	46.5%	31.0	-25.5%	-49.1%
Jul-06	1242.29	18	18	Oct-07	15.1	26.0%	17.2	-45.5%	-56.8%
Mean		**14**	**12**		**8.5**	**16.4%**	**15.7**	**-23.8%**	**-36.4%**
Median		**13**	**12**		**13.2**	**19.6%**	**19.0**	**-25.0%**	**-37.7%**

Source: National Bureau of Economic Research, Federal Reserve Bank of NY, Bloomberg, Stone Investment Partners

Chart of the Week: What does the yield curve mean for the economy and stocks? A previous chart dealt with the 10-2 inversion (2-year Treasury yield higher than the 10-year), but the Fed recently published research suggesting that looking at the 3 month 6 quarters forward less the 3 month rate was superior in forecasting recession. The 10-year yield is at risk of being impacted by factors not helpful for predicting recession. The good news is that this new spread is going in the opposite direction of 10-2 and indicating that the U.S. recession probability is low. In addition, our research shows that stocks have not usually peaked until after this new measure inverts.

Week in Preview:

- Trade news is expected: EC President Juncker meets with President Trump on Wednesday regarding auto tariffs; the World Trade Organization holds a General Council meeting starting Thursday regarding the trade conflict between the U.S. and China; and NAFTA renegotiation talks between the U.S., Canada and Mexico restart on Thursday. 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 global trade conflicts continue to escalate.
- July manufacturing PMI data provide a read on the major economies: U.S. expected to slow to 55.1 from 55.4; Eurozone should moderate to 54.7 from 54.9; and Japan was at 53.0 in June. All should remain well above any levels of recession risk, but the possible degree of loss in momentum will be watched closely.
- U.S. June housing data are on tap with existing and new home sales. June durable goods orders headline and excluding transportation are expected to accelerate. Q2 GDP growth is reported on Friday with consensus, Atlanta Fed and NY Fed estimates at 4.3%, 4.513% and 2.69% respectively.
- 2Q earnings season continues with 174 S&P 500 companies reporting. Last week, the financials rallied by over 2% and were the main driver of the increase in the overall earnings growth rate. S&P 500 earnings and sales growth are expected to remain robust at almost 21% and over 8% year-over-year respectively. With 17% reporting so far: 87% and 77% of companies beat earnings and sales respectively.
- The July German IFO readings are expected to show some moderation in sentiment across business climate, current situation and expectations. The U.K. political battle around Brexit is likely to remain front and center with little significant economic data on the calendar.
- China reports June industrial profits with the May reading at 21.1% year-over-year.
- The central banks of Ghana, Turkey, Hungary, Chile, Nigeria, Georgia, Russia and Colombia meet with Turkey expected to hike their policy rate by 1.0% to 18.75%. Most watched will be the European Central Bank meeting on Thursday, despite essentially no chance of a policy rate change. Rather investors will continue to listen for clues as to timing around any future rate increases – currently expected mid-2019.

Week in Review:

- The S&P 500 was little changed, but small-cap stocks regained their leadership. The 10-year U.S. Treasury yield moved higher to 2.89%. Developed international stocks were higher, while emerging fell by -0.5%.
- Despite lower oil prices, MLP stocks were almost 2% higher on the news of a more favorable FERC order.