

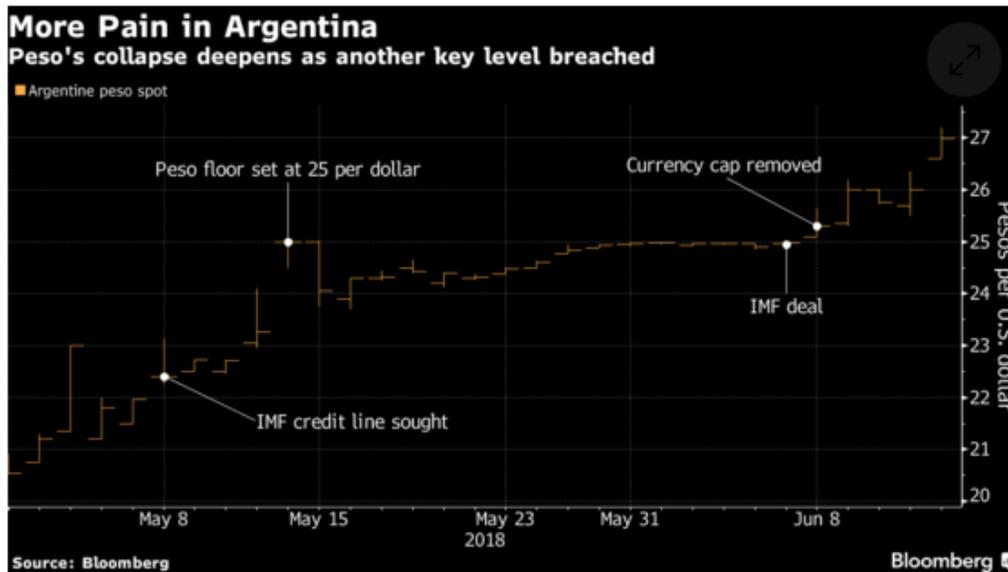


Last Week:

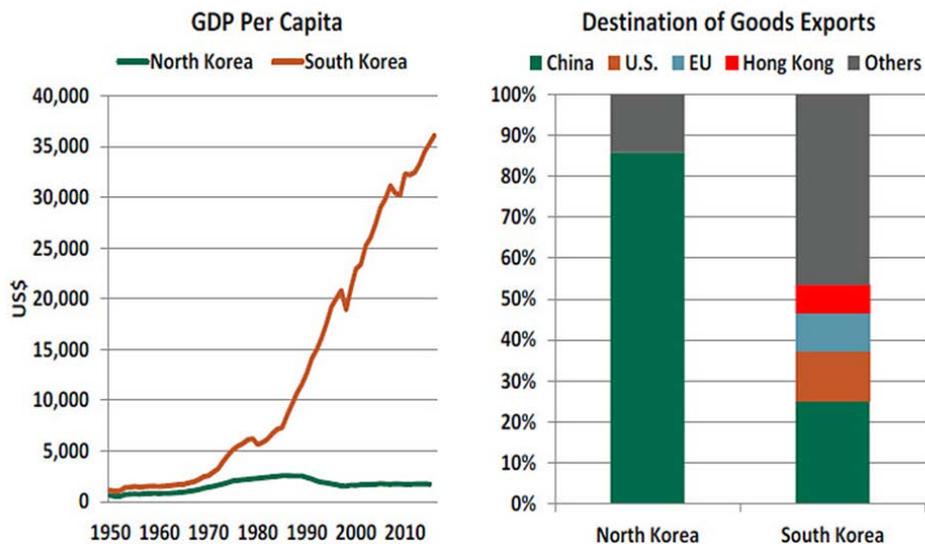
- The Dow Jones Industrial Average couldn't keep pace, posting a decline of (-0.9%)
 - For the week, decliners led advancers 21:9
 - Disney posted the best week, gaining over 4% for a second consecutive week, while **UnitedHealth, Cisco, Nike** and Home Depot rounded out the top gainers
 - General Electric took its all too familiar spot at the top of the decliner list, (-4.5%), joined by Exxon-Mobil (-3.5%), Caterpillar (-3.4%) and Boeing (-3.1%)
 - For the second straight week Recreation was best (last week products, this week services) ahead of industry groups Brewers, Media and Broadcasters, and Toys
 - Marine Transportation was the weakest industry group for the week, followed by a number of Materials groups: Aluminum, Nonferrous Metals and Coal
- Dow Transports chugged ahead +1.2% while Dow Utilities rebounded strongly +2.2%
- The S&P 500 flatlined, gaining just a fraction of a point
 - Consumer Discretionary again was the top sector, followed by Utilities and Consumer Staples
 - Energy was the weakest sector (-3.6%), with Financials, Materials, Real Estate and Industrials all down more than (-1.7%)
- The S&P Smallcap also saw a very modest gain of +0.1% for the week, while the S&P Midcap fell (-0.4%)
- NASDAQ stood out among major indices with a gain of +1.3%
- Crude oil remained nearly unchanged for another week, closing at \$65.06/barrel, down half a buck
- Gold dropped noticeably on Friday to close down more than \$20/ounce at \$1,279
- Global stocks seemed quite dispersed in their performance for the week
 - The Europe Stoxx 600 rose +1.0%
 - Major markets varied, with Frankfurt being strong +1.9%, Paris in line and London falling noticeably (-0.6%)
 - Italy used its best single day market performance in 13 months to charge ahead +3.8% for the week ... Moscow spun the other direction (-2.8%) and Athens again lagged (-1.2%)
 - AsiaPac stock markets were more to the downside than the upside
 - Tokyo did fine +0.7% with Sydney +0.8% and Bombay +0.5%
 - To the downside, Hong Kong declined (-2.1%) and China's Shanghai and Shenzhen markets fell (-1.5%) and (-0.8%), respectively
 - South Korean saw a decline of (-1.9%) following the North Korea summit with the US
- The US Dollar Index strengthened on Thursday following the ECB's interest rate non-action, gaining a point and a quarter to 94.79, its highest level since last November
 - The Euro sold off sharply Thursday (its biggest one day move in eight months), after the European Central Bank said it would keep interest rates steady through mid-2019 and further

taper its asset purchases in October. According to Marketwatch, “market participants hoped for the central bank to take a hawkish stance and outright end its quantitative easing program”

- Argentina’s peso continues to crumble, having lost 6% against the U.S. dollar Thursday, capping a near-30% loss since early May. A truck driver strike and changes at the country’s central bank are the latest news items to plague confidence



- The VIX Volatility Index remained calm, dropping below 12 to 11.98
- The 10-year Treasury yield remained stubborn, falling a couple of bps to 2.93%
 - The 2-year Treasury yield continues to rebound in sympathy to the Fed, closing at 2.55%, as the spread between the 2 and 10 narrowing to 38 bps ... that’s the narrowest the yield curve has been since October 2007
- Tariffs remain the talk of the town, as the US implemented a tariff of 25% on about \$50 billion on Chinese imports ... it didn’t take long for China to take a similar action with US goods
- The World Cup kicked off across Russia, and for the next month soccer fanatics will lose focus on financial markets
- President Trump and Kim Jong-un held a meeting in Singapore, with the ultimate goal being to “denuclearize” the region. While *The Economist* magazine’s take according to its cover was that “Kim Jong Won,” the fact the lines of communication are more open should be a positive
 - One result is that the US and South Korea will suspend joint military exercises for the time being, subject to North Korea following through on the actions expected
 - It is a good time to highlight how starkly different the economic situation is comparing the North and the South



Sources: The Maddison Project, Oxford Economics

- As widely anticipated, the Federal Reserve raised interest rates 25 basis points, and pointed to four rate hikes in calendar 2018 (two already have taken place). Fed Chair Jerome Powell said he intends to hold press briefings after every Fed meeting beginning in January (vs. every other meeting presently). He went on to say that “the economy is doing very well.”
- The Small business Optimism index jumped to 107.8 in May, its second-highest reading in 45 years (highest reading occurred in July 1983)
- The University of Michigan’s Consumer Sentiment index came in at 99.3 in the preliminary June reading, topping the 98.5 consensus estimate
- US Retail Sales surged 0.8% in May, double the consensus forecast, and +5.9% over the past 12 months

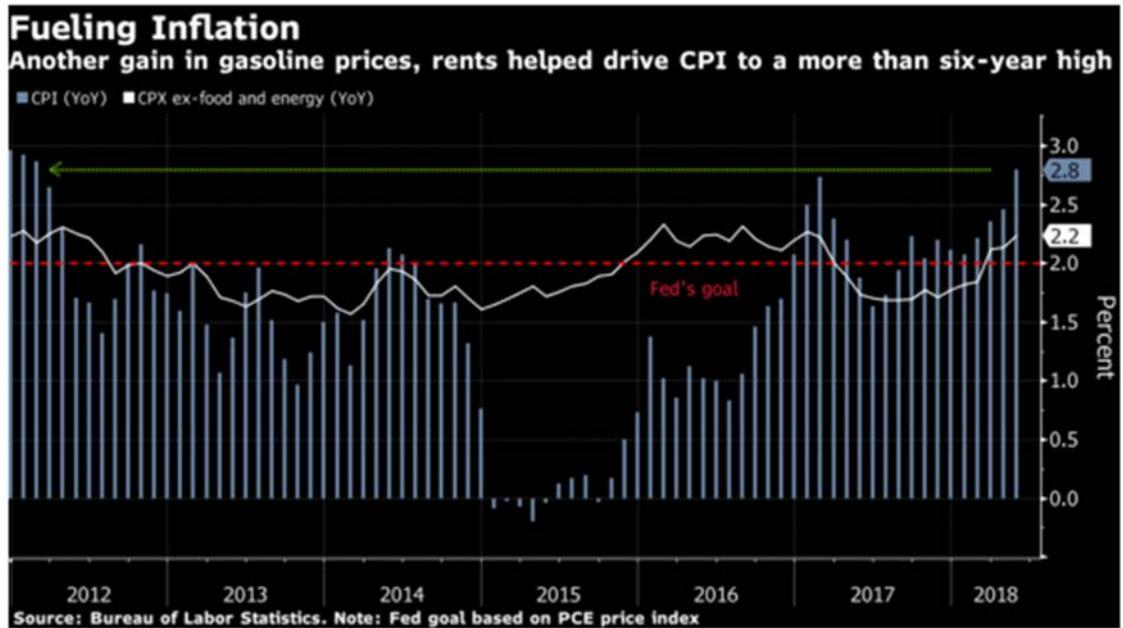
Annual growth in retail sales



Source: Commerce Department via FRED



- The Producer Price Index shot up 0.5% in May, above the consensus 0.3% estimate. Core PPI (excluding volatile food and energy components) rose 0.3%, a shade higher than the 0.2% expectation
- The Consumer Price Index lifted 0.2% in May, matching the consensus forecast. The core CPI (which excludes volatile food and energy components) also rose 0.2%, in-line with expectations. On a year-over-year basis, CPI has risen 2.8% (fastest pace in six years), while core CPI has climbed 2.2%



- The Empire State Manufacturing gauge printed 25.0 for June, topping the 18.5 consensus forecast, an 8-month high
- But Industrial Production slipped -0.1% in May, missing the +0.3% consensus estimate. Capacity Utilization checked in at 77.9%, below the 78.2% that the Street was anticipating
- Weekly Jobless Claims printed 218,000, down 4,000 for the week
- In corporate news:
 - An expectation that the **Qualcomm**/NXP Semiconductor merger would receive Chinese approval has been stalled by the escalating trade war
 - Federal Judge Richard Leon took 172 typewritten pages to approve **AT&T's** acquisition of **Time Warner**, handing a defeat to the Justice Department, which attempted to frame the deal as violating antitrust statutes
 - Immediately following that ruling, **Comcast** sweetened its bid for Twenty-First Century Fox assets to \$35 a share, hoping to derail Disney's plans to acquire those assets
 - Before the end of the week AT&T closed its purchase of Time Warner, moving quickly in hopes of thwarting any thoughts of an appeal



This Week:

- US markets look to open down nearly 1% as trade war concerns are visible
- Most major European markets are also lower in trading early in the day
- A number of Asian markets are closed today, but those that were open were lower
- The ECB hosts its annual conference at Sintra (outside Lisbon, some refer to this meeting as the “Jackson Hole of Europe”) at the beginning of the week
- Stress test results for US banks are announced after the market close Thursday
- OPEC meets Friday, with expectations that production limits will be relaxed, but there remains uncertainty around the final resolution
- Turkey holds elections Sunday
- Google parent **Alphabet** invested \$550 million in China’s JD.com
- Rent-a-Center agreed to sell itself to Vintage Capital for \$15/share
- By week’s end the days will once again be getting shorter, as the summer solstice kicks off the official start of summer
- Earnings season has some known names announcing:
 - Tuesday: Federal Express, La-Z-Boy and Oracle
 - Wednesday: Micron Technology, Steelcase and Winnebago
 - Thursday: Darden Restaurants, Kroger and **Red Hat**
 - Friday: BlackBerry and **CarMax**
- Economic reports:
 - Tuesday: Housing Starts and Building Permits
 - Wednesday: Existing Home Sales
 - Thursday: Jobless Claims, Leading Indexes and the Philly Fed Outlook
 - Friday: Markit PMIs

As always, thanks very much for your interest and support.

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