

THE WEEK IN REVIEW

U.S. stocks started the week with muted performance as investors shrugged off the weekend's somewhat contentious G-7 summit and waited for monetary policy updates from three of the world's most impactful central banks: the Federal Reserve, European Central Bank (ECB), and Bank of Japan (BOJ). The reemergence of concerns about a potential trade war with China weighed on stocks in the second half of the week. President Trump approved tariffs on about \$50 billion of Chinese goods, while China said it would retaliate immediately with tariffs of equal scale on U.S. goods. The U.S. 10-year Treasury yield declined this week due to investor reactions to brewing trade disputes and dovish outcomes from the ECB and BOJ meetings.

As expected, the Federal Reserve raised short-term interest rates for the second time this year. The Fed raised its federal funds rate by 0.25% to the target range of 1.75%-2.00%. Eight of the Fed's 15 officials forecast two additional rate increases this year, up from seven officials in March and four in December. The majority of officials anticipate at least three interest rate increases next year and one in 2020, bringing the federal funds rate to the range of 3.25%-3.50% by 2020. The trajectory of the Fed's rate forecast suggests a yield curve inversion is possible next year which was a leading indicator for recessions in 1990-91, 2001 and 2007-2009.

The interest rate spread between the U.S. and foreign developed countries may continue to widen as the Fed raises rates while the ECB and BOJ leave rates unchanged. The ECB indicated this week it will not raise interest rates before next summer, but it will end its bond buying program in December. The BOJ also kept interest rates unchanged this week. BOJ Governor Haruhiko Kuroda said it is too early to talk about exiting its accommodative monetary policy given Japan's 0.6% inflation rate is well below their 2.0% target.

Higher oil prices in recent quarters are contributing to stronger retail sales growth and inflation. Retail sales increased 5.9% year over year in May, driven by a 17.7% increase in gasoline station sales. Meanwhile, the Consumer Price Index (CPI) increased 2.8%, the strongest increase since 2012. High inflation was supported by an 11.0% rise in energy prices. Core CPI, which excludes the volatile energy and food components, rose 2.2%.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
NFIB Small Business Optimism	107.8	107.6	▲
Producer Price Index (YoY)	3.1%	2.8%	▲
Consumer Price Index (YoY)	2.8%	2.2%	▲
Core Consumer Price Index (YoY)	2.2%	1.8%	▲
Retail Sales (YoY)	5.9%	4.5%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25090.48	-0.89%	1.50%	17.47%
NASDAQ	7746.38	1.32%	12.21%	25.64%
S&P 500 Large Cap	2779.42	0.01%	3.96%	14.26%
MSCI EAFE	2015.24	0.24%	-1.73%	7.36%
Barclays Aggregate US	2004.46	0.02%	-2.05%	-1.18%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.92%	1.90%	1.00%
10-Year Treasury	2.92%	3.07%	2.16%

REPORTS DUE NEXT WEEK	LATEST
Housing Starts (Millions Annualized)	1.29
Existing Home Sales (Millions Annualized)	5.46

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.