

THE WEEK IN REVIEW

U.S. equities push higher for a second consecutive week as the ongoing trade spat with China took a back seat to a positive start to the earnings season. The S&P 500 Index advanced 1.5% led by the industrials and technology sectors, while Walt Disney Co., The Boeing Co. and Caterpillar Inc. propelled the Dow Jones Industrial Average to a 2.3% weekly gain. Following President Trump's announcement of an additional \$200 billion worth of tariffs on Chinese goods, China said it was "forced to retaliate," according to a statement on the Commerce Ministry's website. It is unclear how China will respond, as many reports have indicated that the country does not import enough U.S. goods to counter the newly proposed tariffs. Investors and commentators worry that China will likely counter by restricting U.S. companies' access to its markets.

While the conflict evolved, investors turned their attention to earnings season, as most companies that reported beat expectations. Three of America's largest banks reported with JPMorgan Chase & Co. and Citigroup Inc. surpassing analysts' forecasts. With earnings season kicking into gear, and relatively positive economic data releases this week, the financial markets were able to weather the headlines surrounding geopolitics.

U.S. consumer inflation rose just 0.1% from May coming in below estimates. Many market commentators and economists suspect inflation may pick up significantly in the second half of 2018. U.S. producer prices rose 0.3% in June coming in 0.1% higher than estimated. The index's year-over-year rise at the end of June is the largest since 2011. According to Ian Shepherdson of Pantheon Macroeconomics, "President Donald Trump's latest round of China tariffs, which could take effect within months, would boost the core CPI by as much as 0.6% within a year."

U.S. consumer sentiment came in below estimates at 97.1 for July as some Americans seem to be more concerned about the threat of a trade war. While inflation appears to be on the rise and tariffs may extend its ascent, recent data on trends in consumer debt suggest that Americans may be stretching their budgets, potentially leading to lower levels of consumer spending in future quarters. Reduced consumer spending could, in turn, serve as a stabilizing force by putting a lid on inflationary pressures in the U.S. economy.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Core Consumer Price Index (YoY)	2.3%	2.1%	▲
JOLTS Job Openings (Millions)	6.638	6.078	▲
U. of Mich. Consumer Sentiment	97.1	98.8	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25019.41	2.30%	1.21%	16.08%
NASDAQ	7825.98	1.79%	13.36%	24.73%
S&P 500 Large Cap	2801.31	1.50%	4.78%	14.44%
MSCI EAFE	1966.12	-0.18%	-4.13%	3.21%
Barclays Aggregate US	2018.74	0.03%	-1.35%	-0.10%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	1.94%	1.92%	1.03%
10-Year Treasury	2.82%	2.97%	2.34%

REPORTS DUE NEXT WEEK	LATEST
Retail Sales (YoY)	5.9%
Housing Starts (Millions Annualized)	1.350
Building Permits (Millions Annualized)	1.301
US Capacity Utilization	77.9%

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