

THE WEEK IN REVIEW

The S&P 500 Index and Dow Jones Industrial Average gave back moderate early-week gains Friday, as economic and market weakness in Turkey overflowed into domestic markets. The S&P 500 Index came within 0.5% of its all-time closing high of 2872.87 reached on January 26 of this year, before sagging on Friday. Consumer Discretionary and Technology sectors supported gains in the U.S. equity market earlier in the week. On Friday, President Trump announced a doubling of tariffs on Turkish steel and aluminum amid an escalating dispute regarding the detention of an American pastor. The U.S. government bond market saw a risk-off bid, as the yield on the 10-year Treasury bond declined 0.09% to close the week at 2.87% marking its lowest level in three weeks.

Shifting focus to the domestic economic backdrop, this week saw a number of important data points on inflation in July. Not only did the headline Producer Price Index (PPI) remain above 3.0% on a year-over-year basis, but the core Consumer Price Index (CPI), which excludes volatile food and energy prices, climbed to 2.4%. After beginning the year at 1.8%, the year-over-year measure of core CPI has steadily risen. Yet, many market commentators believe it may be overstated due to so-called “base effects,” as inflation barely budged in 2017 due to a telecommunications price war.

The velocity of money appears to have stabilized after declining steadily since the financial crisis, while the M2 money multiplier has risen from roughly 3.6 to 3.9 thus far in 2018. Taken together, this suggests inflation pressures might be building. Additionally, this week’s JOLTS report showed the number of available jobs in the U.S. is now greater than the total amount of unemployed people seeking work. This suggests the domestic labor market is tight. While that supports the notion that inflation is likely to head higher due to wage gains, it should be noted that the labor force participation remains at multi-decade lows and average hourly earnings have failed to accelerate meaningfully since the beginning of 2016. The recent rise in the U.S. dollar, if sustained, could also dampen inflation. It will take some time to fully work out whether current inflation trends are transitory. While fiscal and trade policies complicate the picture, for now the market expects two more Fed rate hikes of 0.25% this year.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Producer Price Index (YoY)	3.3%	2.6%	▲
Consumer Price Index (YoY)	2.9%	2.5%	▲
JOLTS Job Openings (Millions)	6.66	6.63	▲
Consumer Credit (\$ billion)	10.21	8.79	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	25313.14	-0.59%	2.40%	15.88%
NASDAQ	7839.11	0.35%	13.55%	26.09%
S&P 500 Large Cap	2833.28	-0.25%	5.97%	16.20%
MSCI EAFE	1987.28	0.27%	-3.10%	3.11%
Barclays Aggregate US	2017.30	0.08%	-1.42%	-0.96%

KEY BOND RATES	CURRENT	1WK AGO	1MO AGO	1YR AGO
3-Month T-Bill	2.04%	2.00%	1.97%	1.03%
10-Year Treasury	2.87%	2.95%	2.85%	2.20%

REPORTS DUE NEXT WEEK	LATEST
NFIB Small Business Optimism	107.2
Retail Sales (MoM)	0.5%
Industrial Production (MoM)	0.6%
Housing Starts (Millions Annualized)	1.173
U. of Mich. Consumer Sentiment	97.9

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