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Week in Review

22 May 2017

Last week, most of the equity markets fell with a few exceptions. Only the UK and India saw gains, while the other markets we track fell. In the US, the NASDAQ continues to put up big gains, but European markets have, for the most part, raced past the US. Germany's DAX is up 10.08 for the year and France's CAC-40 is up 9.50%. In Asia, China's Shanghai Composite now sits in the red for the year at -0.61%. India and Hong Kong have been the stars with returns of 14.42% and 14.69%, respectively.

U.S. and North America

by Dave Schiller

One of the statistics that has been growing concern in the US economy is the large consumer debt levels that have built up in the last decade. As it stands, household debt has now surpassed the levels of the 2008 credit bubble. The Federal Reserve Bank of New York stated that total household debt for the first quarter of 2017 stood at \$12.7B. Debt has ballooned from student loans as well as auto loans and credit cards. There are some who believe that the debt is not a problem and shows optimism in the economy. We do not believe this is the case and particularly in the student loan area, this could be a significant barrier to building wealth for retirement.

The *Philadelphia Fed Business Outlook Survey* surged well past expectations at 38.8 (consensus was 19.6). This is the highest reading since 1983. Shipments, workweek and hiring were all robust. Future indications are for strong continued activity.

Industrial Production beat consensus across the board. The productions component was up 1% compared to expectations of 0.4%. Manufacturing was up 1.0% (0.3% expected) and the capacity utilization rate was 76.7% vs consensus of 76.3%.

The *Empire State Manufacturing Survey* fell 1.0 compared to expectations of 8.0. This follows several strong months so the aggregate numbers are still good. This report isn't considered as bad as it appears as it should help keep inflationary pressures down a bit.

Jobless Claims continue to drop as new claims came in at 232K, 8K less than expected.

Housing Starts fell below consensus (1.172m was 1.256m). Single-family homes are the strong aspect of the report. Multi-family homes fell 9.2%.

The *Housing Market Index* beat consensus (70 vs. 68). The West continues to lead the charge while the Northeast US lags.

The *MBA Mortgage Application* return showed that both refinances and purchases are trending down. The composite was down 4.1% after showing a 2.4% gain last week. Purchases were down 3.0% (vs 2.0% last week) and refinances are down 6% compared to a 3.0% gain last week. The 30-year mortgage rate held steady at 4.23%. Some believe that this reversal is temporary and while we are entering peak buy season,



we think there will be some softness in the mortgage market as many people have already refinanced before rates started to rise.

E-Commerce Retail Sales have picked up recently as Q1 saw an increase of 4.1% compared to a prior revised reading in Q4 2016 of 1.7%. E-commerce now sits at 8.5% of all consumer retail spending.

The *EIA Petroleum Status Report* showed inventories dropped across the board. Crude oil inventories were down 1.8m barrels, which is the 6th consecutive week of declines. Not surprisingly, we are beginning to enter the peak driving season. Gasoline was down 0.4m barrels and distillates were down 1.9m barrels.

In Canada, the *CPI* report was a little softer than expected, but inflation is in the range that the BoC has set. Expectations were for 1.7% annualized inflation, but it came in at 1.6%.

Retail Sales were above consensus for March 2017 and it surged on an annualized basis. For March, sales were up 0.7% and year-over-year it was up 6.9% compared to a prior reading of 4.7%.

Manufacturing Sales were also up over consensus on a monthly and annualized basis. For March, sales matched consensus of 1.0%, which was an increase over February's reading of -0.6%. Y/Y, sales were up 8.2% vs 6.2%.

Europe

by Dave Schiller

The European Central Bank April meeting minutes were released and it showed that officials are much more confident about the EU's economy. Policy doesn't appear to be changing in the near-term as there are still some down-side risks. Those risks are becoming lesser, however.

The **Eurozone's GDP Flash** report matched consensus for the quarter and year-over-year. The region's contributors were Germany, Spain, and some smaller economies. Greece contributed negatively as it sled back into recession.

The **HICP** report matched consensus and beat the prior period for April 2017. For the month, consumer prices increased 0.4% and Y/Y they increased 1.9%.

Merchandise Trade saw a €23.1B surplus for March 2017. Imports dropped 1.1%, but were up 14.0% for the year. Exports increased 1.4% for the month of March and were up 13.0% for the year ending March 2017.

The **UK CPI** report showed a slight uptick in inflation. For April, inflation was up 0.5% (vs consensus of 0.4%) and 2.7% annualized compared to 2.6% consensus.

PPI was up 3.6% for the year ending April 2017. Input prices increased 16.6% although they were expected to jump 17.0%. Much of the data indicate the effects of the British Pound's decline are coming to an end.

The **Labour Market Report** saw new unemployment claims rise to 2.3% from 2.2%. The ILO unemployment rate actually fell to 4.6% from 4.7% last month. Wage pressures also increased from 2.3% to 2.4%. That number isn't overwhelming, however.

Retail Sales rebounded to 2.3% in April. This in contrast to March's revised decline of 1.4%. Annualized, sales are up 4.0% compared to last month's annual reading of 2.0%.

The **CBI Industrial Trends Survey** was up 9% in May compared to April's 4% and a consensus of 4%. This is a bullish reading for the manufacturing industry. The overall good reports this week helped propel the FTSE to a positive week.

In **Germany**, the **ZEW Survey** showed increased optimism about the current conditions in Germany. Expectations were higher this month compared to April, but the reading fell below consensus.



PPI beat consensus expectations for both April and the annualized reading ending in April. For the month, PPI was up 0.4% and on an annualized basis, it rose 3.4%.

In **France**, the **ILO Unemployment** rate saw a decrease in people out of work. For Q1 2017, the unemployment rate fell to 9.3% while consensus was for 9.5%.

In **Switzerland**, the **Producer and Import Price Index** fell 0.2% for the month of April and fell below expectations on an annualized basis at 0.8%. Inflation has held stubbornly below the central bank's 2% target level.

In **Italy**, **GDP** match consensus for Q1 2017 although it fell below the annualized reading of Q4 2016. Italy continues to remain a laggard compared to the Eurozone's larger economies.

CPI did beat consensus and the prior period. For April, inflation edged up to 0.4% (vs 0.3% in March). Annualized, inflation clocked in at 1.9%. While inflation has picked up a bit on the consumer side, consumer spending will need to move forward at a stronger rate to sustain this level.

Asia/Australasia

By: Dave Schiller

In **Japan**, *GDP* match consensus for Q1 2017 at 0.5%. Annualized, the growth rate increased 2.2% beginning Q1. The last annualized quarterly rate was 1.4%. While there is some positive news in this report, the sustainability is still in question.

The *Merchandise Report* showed the trade surplus narrow to ¥481.7B. Exports increased 7.5% for the year ending April 2017 while imports jumped 15.1% annualized.

The *Tertiary Index* fell 0.2% in March although year-over-year it rose 0.3%. The annual number was a nice improvement from the prior reading of -1.3%. Only 4/11 components fell, but they were significant enough to outweigh the remaining groups.

Machine Orders were softer than expected. For the month of March, officials expected an increase of 2.5%, but the report showed an increase of only 1.4%. On an annualized basis, the prior reading was 5.6% compared to the current decline of 0.7%. GDP will be lower because of this report.

In **China**, the *House Price Index* was lower than the prior revised monthly reading in March. For April, prices increased 11.6% and the lower rate highlights efforts by officials to cool down the real estate market.

In **India**, the *Merchandise Trade Balance* saw the deficit widen to \$-13.25B. Exports were up 19.77%, but that was down from March's 27.6% increase. Imports jumped to 49.07% from 45.3% in March.



The Reserve Bank of **Australia** release the minutes from their meeting on May 2. Interest rates were held at 1.50%. While bank officials noted that the global economy was improving, there were concerns that the Chinese economy could pose risks. Overall, the minutes seem to indicate that there will be little change in policy over the next few months at least.

The Labour Force Survey showed unemployment fell 2 ticks to 5.7%. Expectations were for 5k new jobs to be added to the economy, but 37,400 positions were filled. The only negative here is that the gains were fully attributable to part-time work. The participation rate was steady at 64.8%.

Market Review


Index	Close	Week Change	% Week Change	% YTD Change
DJIA	20804.84	-91.77	-0.44%	5.27%
NASDAQ Composite	6083.70	-37.53	-0.61%	13.01%
S&P 500	2381.73	-9.17	-0.38%	6.38%
FTSE 100 (UK)	7470.71	35.32	0.48%	4.59%
DAX (Germany)	12638.69	-131.72	-1.03%	10.08%
CAC 40 (France)	5324.40	-81.02	-1.50%	9.50%
Nikkei 225 (Japan)	19644.32	-225.53	-1.14%	2.77%
Hang Seng (HK)	25232.25	-139.34	-0.55%	14.69%
Shanghai Composite (China)	3084.63	-5.60	-0.18%	-0.61%
S&P BSE Sensex (India)	30464.92	276.77	0.9%	14.42%
S&P/ASX (Australia)	5763.50	-74.90	-1.28%	1.72%
10-Year US Bond Yield	2.249%			

Source: Wall Street Journal. Past performance does not guarantee future results.

Aegis Wealth Partners, LLC
 7702 E Doubletree Ranch Road, Suite 300
 Scottsdale, AZ 85258
 (T): 480.348.3975

www.aegiswealth.net

: @AegisWealth

: @aegiswealth

LinkedIn : [Aegis Wealth Partners, LLC](#)

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