AEGIS WEALTH PARTNERS, LLC

Week in Review

12 June 2017

Markets were mostly lower this week with a few exceptions. In the US, the DJIA was up along with midcap and smallcap stocks while NASDAQ and the S&P500 pulled back. Oil, financials, banks, and construction were the leaders for the weak. Technology was the biggest drag on the markets as noted in NASDAQ's tech-heavy makeup. The so-called FANG stock (Facebook, Apple, Netflix and Google's parent company, Alphabet) were hit hard as Goldman Sachs expressed concerns over their valuations. Those companies have added over $600B in market capitalization this year and investors took profits.

Europe's bigger economies were down, but nothing like the US NASDAQ. The French CAC-40 lost 0.82% while the UK's FTSE 100 shed 0.27%. Germany's DAX was mostly flat as it lost 0.06%. Spain continues a strong 2017 as the IBEX 35 is now up 17.39%.

Asia was mixed as China's Shanghai Composite added 1.70%, but Australia, India and Japan lost ground. The region's leaders continue to be Hong Kong, South Korea and India which are all in the 15-19% range for the year.

U.S. and North America

by Dave Schiller

The *ISM Non-Manufacturing Index* came in a tick below consensus and contracted from April. Still, the number of 56.9 is good overall. The economy needs to begin matching some of the data that we're seeing.

Factory Orders matched consensus with a contraction of 0.2%. The report was mixed with durable goods declining and non-durable good rising for the month. This is a report that seems to contradict the positive regional reports.

Productivity and Costs was mixed. Nonfarm productivity was flat and beat consensus. Unit labor costs were up 2.2% for the quarter, but below expectations. Employers are seeing margins squeezed.

Jobless Claims were at 245k for the week of June 3rd. This was lower than the previous week by 10k.

The *JOLTS* report showed 6.044M job openings for April. Hirings were at 5.051M and this shows that employers are having a difficult time finding people with the right skill set.

Consumer Debt was much lower than expected. While this is not a major report, it is good to understand where consumers stand. On the one hand, debt levels are high, but debt-to-income ratios have been dropping since its near-term peak in late 2015.

The *EIA Petroleum Status Report* reversed its recent trend by showing an increase in crude oil, gasoline and distillates inventories.

Canada released its *Labour Force Survey*. Employment rose 54,500 compared to expectations of 15,000. Full-time jobs increased 77,000 while part-time jobs fell 22,300. This is good news. Unemployment was up a tick to 6.6%, but the labor participation rate rose to 65.8% from 65.6%. The BoC is likely closer to considering an interest rate increase.

Housing Starts fell below consensus with 194,663 units. The decline from April was predominantly in the urban areas.

The *Ivey Purchasing Managers'* Index was up compared to April (62.6 vs. 58.5). On a seasonally-adjusted basis, the index fell to 53.8 from 62.4. Employment, prices and supplier deliveries were down while inventories increased.

Europe

by Dave Schiller

The *European Central Bank* held rates steady this week at 0%. The ECB believes that downside risks have lessened, which is good news and in line with most other central banks across the globe. The big drag still appears to be inflation with has remained stubbornly low.

The **Eurozone** *PMI Composite* matched consensus at the headline level and was a tick higher at the services level. The headline reading is the highest level it has reached in six years. This report indicates the region will have a good Q2.

GDP for Q1 2017 showed growth for the quarter as well as annualized. For the year ending March 2017, GDP was up 1.9% compared to expectations and the prior reading of 1.7%.

Retail Sales were down a tick compared to expectations (0.1% vs 0.2%) and matched the previous annualized level of 2.5% growth. Spain was a bright spot as sales rose 0.6% on increasingly good news from that country.

In the **UK**, the *CIPS/PMI Services Index* contracted from 55.8 to 53.8. New orders slowed but backlogs and optimism were up nicely.

The *Halifax HPI* was up 0.4% in May which beat the consensus estimate of -0.2%. Annualized, the index rose 3.3% which also beat consensus of 2.9%. The trends are heading lower, however as the market cools.

The *Merchandise Trade Report* showed a deficit of Stg-10.38B. This was smaller than March and better than expectations. Subtracting oil and other volatile components, exports were up 1.9% and imports down 3.5% (vs headline -4.4%). Nevertheless, the deficit is a downside risk for the economy.

Industrial Production was softer than anticipated as it grew 0.2% (expectations were for 1.0% growth). Manufacturing output was also softer than expected. There are hopes that a stronger bounce will come in May.

In **Germany**, PMI Composite was up to 57.4 on the headline. Services matched the previous month with output of 55.4. The German economy is looking good as services are respectable and manufacturing is excelling. The question is whether inflationary pressures will cause problems while the ECB holds interest rates flat. The Germans would like to see rates rise sooner rather than later.

The *Merchandise Report* showed a surplus of €19.8B as imports rose 1.3% and exports increased 0.9%.

Industrial Production climbed 0.8% to beat expectations. Annualized, production grew 2.8% and surpassed the previous measure. The components were mixed as capital goods and energy rose. Consumer goods and construction were down. The trends are still good and optimism is high.

Manufacturer's Orders fell 2.1% and failed to meet expectations. Most components were generally negative. Expectations are for better performance in May and June.

In **France**, the *PMI Composite* headline grew over the month of May, but it failed to match expectations. Services also grew, but also failed to match expectations. The services measure is quite good, though, and both services and manufacturing should helped boost Q2 GDP.

The *Merchandise Trade* saw a deficit of €-5.54B mainly on weakness in exports. The deficit shouldn't hurt GDP as much as it did in Q1, but it remains a downside risk.

In **Italy**, *Retail Sales* shrank 0.1% in April while expectations were for a 0.2% gain. This remains a weak segment of the Italian economy.

In **Switzerland**, *CPI* matched last month with an increase of 0.2%. Annualized, inflation crept to 0.5% which bested the previous month and expectations. This was a pleasantly surprising report, but inflation still struggles to rise for the Swiss economy.

Asia/Australasia

By: Dave Schiller

China released its *Merchandise Trade Balance* Report this past week. The surplus grew from ¥262.3B (38.05B) to ¥281.6B (40.81B). Yuan-based exports jumped 15.5% while imports increased 22.1%. EU-demand for Chinese good was the primary driver in export growth.

CPI shrank 0.1% for May although it did grow on an annual basis from 1.2% to 1.5%. Softer food prices have been a significant culprit in the under-target inflation level. The target for China remains at 3.0% so there is some room to go.

PPI fell 0.3% in May, but it was a stronger reading from April. Annualized, PPI rose 5.5% which was softer than April and below consensus. Producer inflation was lower in most categories compared to last year. Experts expect this trend to continue for at least the next few months.

In **Japan**, the *Tertiary Index* was stronger in eight of eleven industry groups. For April, the reading was up 1.2% compared to -0.2% in March.

PPI was flat for May as it came in a tick below expectations. However, producer inflation seems to be getting some traction. What the economy needs to see is for producer inflation to translate to consumer inflation. At this point, the BoJ is still forecasting only gradual increases in inflation.

Machine Orders were down sharply in April. After posting an increase of 1.4% in March, orders contracted 3.1% in April. Non-Manufacturing was the biggest contributor to the decline while manufacturing orders rose. Capex will likely weigh significantly on GDP.

As expected, the *Reserve Bank of **India*** held interest rates steady at 6.25%. Five of six policy committee members voted to hold rates as is and the outlook for interest rates is neutral. Officials had forecast inflation to reach 4.5%, but instead it dropped to just under 3.0% which was a surprise. Officials now believe inflation will hover in the 2.0-3.5% range for the first 6 months of the year and move to 3.5-4.5% in the last 6 months. Economic data has been a bit weaker as well so upside risks have subsided and the central bank is taking a more cautious approach.

The *Reserve Bank of **Australia*** also held interest rates steady 1.5%. While officials expect GDP to be low in Q1 2017, they do believe that rising commodity prices and the overall global recovery will help push GDP over 3.0% eventually.

GDP came in at 0.3% for Q1 2017 and annualized at 1.7%. This beat consensus, but was lower than the prior period. The negative trend was expected, though, and officials pointed out that GDP should hit 3.0% in the next 2 years.

Market Review

Index	Close	Week Change	% Week Change	% YTD Change
DJIA	21271.97	65.68	0.31%	7.64%
NASDAQ Composite	6207.92	-97.88	-1.55%	15.32%
S&P 500	2431.77	-7.30	-0.30%	8.62%
FTSE 100 (UK)	7527.33	-20.30	-0.27%	5.38%
DAX (Germany)	12815.72	-7.22	-0.06%	11.62%
CAC 40 (France)	5299.71	-43.70	-0.82%	9.00%
Nikkei 225 (Japan)	20013.26	-164.02	-0.81%	4.70%
Hang Seng (HK)	26030.29	106.24	0.41%	18.32%
Shanghai Composite (China)	3258.40	52.86	1.70%	1.76%
S&P BSE Sensex (India)	31262.06	-11.23	-0.04%	17.41%
S&P/ASX (Australia)	5715.50	-105.60	1.81%	-0.6%
10-Year US Bond Yield	2.200%			

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

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