AEGIS WEALTH PARTNERS, LLC

Week in Review
21 August 2017

The US markets continued their streak of losses. The Dow, NASDAQ and S&P500 were down ranging from -0.64% to -0.85%

Utilities (1.26%) and Materials (0.42%) were the top gaining sectors for the week while the decliners were driven by Energy (-2.65%), Telecom (-1.83%), and Consumer Discretionary (-1.82%).

Europe reversed heavy losses last week as Italy (2.16%) and Germany (1.26%) led the pack. Spain and France were both up over 1.0%. Only Switzerland dropped value.

Asia was mostly up as China saw the largest gains (1.88%). Japan declined over 1% for the week

U.S. and North America

by Dave Schiller

It was another tumultuous week for the Trump administration that overshadowed much of the economic data. First, the business advisory council was disbanded after several CEOs resigned to protest the President's weak remarks following the violence in Charlottesville. Second, Steve Bannon was ousted as chief strategist. This is the most recent fallout from the President's dwindling core of advisors.

The *FOMC Minutes* were published from the July meeting. There appears to be a split among members over when to raise interest rates. The view on reducing the $4.5T balance sheet is more unified and that process could begin soon even though

The *Treasury International Capital* report saw foreign demand for US Treasuries decline from $91.9B to $34.4B. China did overtake Japan as the number one buying of US government debt.

Import and Export Prices were improved from June. Import prices rose 0.1% in July to an annualized 1.5%. Exports rose 0.4% compared to -0.2% in June while annual exports increased 0.8% from 0.6%.

The *Philadelphia Fed Business Outlook Survey* was unexpectedly strong with an 18.9 reading that passed expectations and was closer to the top of the consensus range.

Industrial Production fell below expectations (0.2% vs 0.3%). Manufacturing contributed with a decline from 0.2% in June to -0.1% in July. Capacity Utilizations held steady at 76.7%. This report is a good check against reports like the Philly report.

The *Empire State Manufacturing Survey* was abnormally strong at 25.2. That not only blew through the consensus number, but far exceed the top of the consensus range (15.0). New Orders and the outlook were very strong. Employment grew moderately.

Business Inventories grew 0.5% in June. That was higher than consensus and May's reading.

Jobless Claims had another stellar report with 232k new claims filed for the week of 12 August. That was a drop of 12k since the prior week.

Consumer Sentiment in August is near 20-year highs and surpassed both July's level as well as the top end of the consensus range.

Housing Starts and permits fell below the prior revised numbers of June and consensus. Starts have been somewhat erratic lately, but the overall 5-month trend is clearly down. Multi-family homes have been a big part of that weakness and some banks are reporting overvalue when it comes to lending in that space.

The *Housing Market Index* for August was higher than July and also passed the top end of the consensus range. Confidence appears to be growing for builders. Not surprisingly, the West leads the pack.

The *Retail Sales* report showed a nice gain across the board as sales beat consensus and the prior month in every category. This is a welcome report.

The *EIA Petroleum Status Report* saw crude oil inventories drop 8.9M barrels while gasoline inventories were flat.

In **Canada**, headline *CPI* was flat for July which was an improvement over June. Annualized, inflation rose from 1.0% to 1.2%.

Manufacturing Sales dropped more than expected in June. May showed a 1.1%, but the latest report saw contraction of 1.8% for a nearly 3 point reversal. Annualized, sales dropped from 8.7% to 6.2%.

Europe%

by Dave Schiller

Brexit new hit the markets this week and it wasn't particularly good. The UK proposed making trade deal with non-EU countries as they plan for economic independence. EU officials roundly criticized the proposal stating it violated the terms of EU trade, to which the UK is still subject. EU chief negotiator took this as an opportunity to reiterate that the UK needs to settle the 'divorce' issues of citizens' rights, cost of divorce, and the Irish relationship before any other progress can be made.

The **EU** released minutes from the *European Central Bank*'s 20 July meeting. Officials noted the strength of the Euro as a sign of fundamental improvement in the region's economy. Also of note, is the faltering inflation level and the perception that it would remain on the low end of projections for some time. There were also concerns about certain downside risks, namely the United States policy questions and balance sheet rises in emerging market economies.

GDP Flash matched expectations for Q2 at 0.6% and surpassed Q1 on an annualized basis (2.2% to 1.9% revised).

HICP was unchanged for the year ending July 2017 at 1.3%. Inflation remains weak.

Merchandise Trade showed a €22.3B surplus in June. This was higher than the previous month. Imports dropped 4.1% for the month while exports fell 1.9%.

Industrial Production fell more than expected (-0.6% to 0.5%). Annually, IP fell from 3.9% to 2.6%. Germany and France, the largest economies in the region, pushed the measure down while Italy rose and Spain remained flat. Overall, production is at a decent rate so all is not bleak here and it remains at the top end of the range over the past 4 years.

In the **UK**, *CPI* matched consensus while holding flat on an annualized basis (2.6%). Target inflation is 2.0%.

Producer Price Index reached expectation level with output showing a 3.2% increase. Input levels were a tick below expectations at 6.5%. The drop in input was noticeable and expected, however, moving from 10.0% to its current level.

The *Labour Market Report* showed a decline in unemployment claims since last month. Unemployment dropped from 4.5% to 4.4% while wage inflation moved from 1.8% to 2.1%. While the latter is an improvement, compared to a year ago, real wages fell half a percent.

Retail Sales dropped in July when compared to June. Annualized, sales fell from a revised 2.8% to 1.3%.

In **Germany**, *GDP Flash* was up 0.6% for Q2. This was a tick below Q1. For the year ending June 30, 2017 GDP rose from 2.0% to 2.1%.

In **France**, the *ILO Unemployment Rate* showed more improvement as those out of work fell from 9.3% to 9.2%.

In **Italy**, *GDP* matched consensus for Q2 and annualized. GDP now sits at 1.5% for the year ending June 30.

In **Switzerland**, the *Producer and Import Price Index* was marginally improved from June. July recorded flat prices (down 0.1% in June), while it is stable from last year (-0.1%). While the Swiss market performs reasonably well, much of the data doesn't support that performance, in our opinion.

While we tend not to follow the Scandinavian economies closely here, it is work noting that inflation in Sweden surpassed the Swedish central bank's target rate. Currently, rates are -0.5%.

Asia/Australasia

By: Dave Schiller

The IMF increased China's annual growth rate to 6.4% for 2017-2020. This was up from 6.0%. The downside risks increase, however, as rising debt levels are expected to reach nearly 300% of GDP. This is up from 242%. Deleveraging is a top priority for the government, but the demand for borrowing has been significant.

In **China**, *Industrial Production* was up 0.41% for July and 6.4% annualized. This failed to meet expectations and was lower than June. Manufacturing and mining had the largest growth rate declines as each were down 1.3% from last period. Annual IP growth rates have hovered around the 6.5% for much of the last year after dropping from over 10% in 2013.

Fixed Asset Investment grew 8.3% in July although that was below expectations of 8.6%. Investments were lower in mining (which declined per the IP report) as well as in property investments. The later to be expected as the government has been trying to slow the hot property sector.

Retail Sales grew 10.4% in July but like other reports, it failed to meet expectations or match the prior reports level. Eleven of twelve categories declined. The drop was the most significant since the beginning of the year. Since January 2015, annual sales have mostly tracked in the 10-12% range.

The *Housing Price Index* dropped another half a point to 9.7%. This is a welcome report since government officials have attempted to prevent a bubble in property. Thus far, they appear to be on track for success.

In **Japan**, *GDP* surged past consensus and the prior readings. For Q2, GDP was up 1.0%. Expectations called for 0.7% increase and Q1 was 0.4% in a revised measure. Annualized, GDP hit 2.0% which surpassed the prior revised reading of 1.5%. The private sector helped boost the report.

Merchandise Trade saw a surplus of ¥418.8B. This was greater than consensus, but about ¥20B less than June. Exports jumped from 9.7% to 13.4%. Imports also recorded a gain, but to a smaller extent: 15.5% to 16.3%.

The BoJ decreased its 10-year government bond purchase rate from ¥470B to ¥440B to prop yields on the bond.

In **India**, the *Merchandise Trade Balance* saw the deficit decline from $-13.0B to $-11.45B in July. Exports dropped 3.94% while imports fell from 19.0% to 15.42%.

In **Australia**, the *Reserve Bank of Australia* released the minutes from its 1 August meeting. Officials noted that sustainable growth could be achieved at the current interest rate level of 1.5% and that target inflation could eventually be achieved. New data didn't give reason to change course. One factor for a change in policy is whether the currency strengthens.

The *Labour Force Survey* saw unemployment fall from 5.7% (revised in June) to 5.6%. The participation rate increased as well from 56.0% to 56.1%. Employment gains were mostly in the part-time sector.

In **New Zealand**, *Retail Trade* was up unexpectedly by 2.0%. Consensus called for a 1.0% gain. Annualized, trade is up 5.4% compared to last period's increase of 4.6%. Much of the growth was due to tourism.

Market Review

Index	Close	Week Change	% Week Change	% YTD Change
DJIA	21674.51	-183.81	-0.84%	9.67%
NASDAQ Composite	6216.53	-40.03	-0.64%	15.48%
S&P 500	2425.55	-15.77	-0.65%	8.34%
FTSE 100 (UK)	7323.98	14.02	0.19%	2.54%
DAX (Germany)	12165.19	151.13	1.26%	5.96%
CAC 40 (France)	5114.15	53.23	1.05%	5.18%
IBEX 35 (Spain)	10385.70	102.80	1.00%	11.05%
FTSE MIB (Italy)	21814.96	460.94	2.16%	13.42%
Swiss Market (Switzerland)	8874.35	-9.69	-0.11%	7.96%
Nikkei 225 (Japan)	19470.41	-259.33	-1.31%	1.86%
Hang Seng (HK)	27047.57	164.06	0.61%	22.94%
Shanghai Composite (China)	3268.72	60.18	1.88%	5.32%
S&P BSE Sensex (India)	31524.68	311.09	1.00%	18.40%
S&P/ASX (Australia)	5747.10	54.00	0.95%	1.43%
10-Year US Bond Yield	2.196%			

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

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