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Week in Review

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The US Markets rebounded nicely after a bumpy few weeks. NASDAQ resumed its leadership positions with a 2.71%, while the S&P500 was up 1.37%. The Dow had a respectable 0.8% gain. Leading S&P500 sectors were Health Care (2.98%), IT (2.21%), Materials (1.86%) and Consumer Discretionary (1.56%). Laggards included Telecomm (-1.35%) and Utilities (-0.64%).

Europe was mostly up, but modestly. Italy (0.52%), the UK (0.50%) and France (0.37%) led the way while Germany (-0.21%) and Spain (-0.19%) were down.

Asia was mostly up. Japan (1.23%) was the biggest gain while China continued its recent winning streak (1.07%) and India followed (0.94%). Australia remains the laggard with a -0.34% loss. For the year, the Aussie stock market is up an anemic 1.04%. Compare this to the surging Hang Seng (HK) 27.06%.

U.S. and North America

by Dave Schiller

In the **US**, the *GDP* report was published and it beat expectations. GDP for Q2 registered 3.0% vs expectations of 2.8%. The consumer spending component was a strong 3.3% which also beat estimates.

International Trade in Goods saw the deficit expand to \$-65.1B in July. That was approximately \$1B more than in June. Exports dropped 1.3% while imports were down marginally at -0.3%.

Personal Income and Outlays was mostly in line with consensus. Personal income grew 0.4% in July which was expected. Consumer spending was a tick short of consensus at 0.3%. Inflation was weak at 0.1%.

The *ISM Manufacturing Index* was up over two points ahead of consensus, 58.8 to 56.6. This is one of the highest readings in over six years.

PMI Manufacturing Index was lower in August as it fell half a point to 52.8. This data contrasts to the ISM report in that it is the lowest reading in 14 months. Hiring and new orders were strong.

Chicago PMI was strong with a 58.9 reading. New orders and production are surging. Employment and backlog orders contracted.

Construction Spending was weaker than anticipated at 0.6%. Residential construction spending was strong, however, with a 0.8% gain. Multi-family housing continues to soften though. Nonresidential, including commercial buildings, was also weak. The growth chart for this data has trended down dramatically since the November elections.

Jobless Claims continue to be a strong segment of the economy. 236k new claims were filed.

The *Employment Situation* report showed 156,000 new jobs added to nonfarm payrolls. The unemployment rate increased unexpectedly to 4.4% from 4.3%. The participation rate held steady at 62.9%. The average workweek dropped from 34.5 hours to 34.4 hours while wages increased 2.5% for the year ending August 2017.

The *ADP Employment* report saw 237k new jobs added to private payrolls while 185k were expected.



The *Pending Homes Sales Index* was down 0.8%. This was disappointing given the expectation for 0.4% growth and June's 1.3% growth. The West showed a gain in July, but the largest region, the South, was down 1.7%.

The *S&P500 CoreLogic Case-Shiller HPI* was up 0.1%. That was in the consensus range, but below the expected 0.3% gain. For the year, home prices are up in the 20-city index by 5.7%.

Consumer Sentiment continues to be strong although it failed to match expectations-96.8 vs 97.4.

Consumer Confidence exceeded expectations, 122.9 to 120.6. Consumer data, coupled with jobs data, continue to be bright spots.

Motor Vehicle Sales were down again. The expectation was for 16.7M vehicles to be sold, but 16.1M was the actual number. This is the slowest rate since February 2014.

The *EIA Petroleum Status* report saw a further drop in crude inventories. For the week of 25 August, inventories dropped 5.4M barrels. Gasoline stores held steady again.

Europe%

by Dave Schiller

Stagnation is the key word for Brexit discussions. EU negotiators are frustrated that the UK has failed to disclose their position on the divorce settlement. Michel Barnier, chief negotiator for the EU, has a directive from the 27 EU leaders to hold firm on the key positions of financial settlement, citizens' rights and Ireland. Meanwhile, the UK calls the EU's demands excessive although acknowledging there is a financial obligation.

UK Manufacturers have demanded urgency on worker's rights as the sector faces a potential shortfall of skilled employees. This is the sort of internal pressure that could help push negotiations forward.

In **Eurozone** news, the *HICP Flash* report came out and showed inflation up in August. Analysts expected a 1.4% annual gain from July's 1.3%. The ECB will be happy that inflation surpassed that to sit a 1.5% across the region.

Economic Sentiment rose again to 111.9. That surpassed last month's figure as well as expectations.

The *Unemployment Rate* held steady at 9.1%. Italy and France had disappointing increases in unemployment whereas Germany saw a decrease.

In the **UK**, *Nationwide HPI* fell –to 0.1% from 0.3%. The housing market has lost momentum compared to the larger economy. It was only several months ago that it was hot.

The *CIPS/PMI Manufacturing Index* was up in August, 56.9 to 55.3 in July. This is a particularly good showing for the sector as it continues to expand. As mentioned before, there are some headwinds regarding Brexit questions.

In **Germany**, the *PMI Manufacturing Index* was up over a point from July to 59.3. It was just shy of expectations, but inflation is building for manufacturers. This is a good report.

CPI matched expectations at 0.1%. Its lower than last month, but the annualized inflation rate went up a tick to 1.8% and now sits close to the target rate of 2.0%.

Unemployment Rate was steady at 5.7%.

Retail Sales were down 1.2%. That was greater than the expected 0.4% decline. This report is often volatile.



In **France**, *PMI Manufacturing* was up almost a point to 55.8 in August. This matched analyst expectations. The French economy has shown balance recently between services and manufacturing.

The *PPI* report saw a reversal in July. While up only 0.1% for the month, producer prices had been down in June. Year/year, inflation is now at 1.5% for producers. There is still softness here and it will need to pick up before it translates to the consumer CPI side.

CPI did show some strength in August, however. Inflation was up 0.5%, but it remains weak on an annualized basis at 0.9%.

GDP for Q2 was stable compared to Q1 at 0.5%. This was in line with expectations. For the year ending June 30, GDP is now at 1.7%. This bodes well for Q3 as long as the economy can build on some momentum.

In **Italy**, *GDP* was up 0.4% in Q2. That matched Q1. The trend held for annualized data at 1.5%. The consumer sector remains a downside risk, however.

CPI was up 0.3% in August. This was better than July's 0.1% gain. For the year ending in August, inflation inched up a tick to 1.2%.

In Switzerland, the *SVME Purchasing Manager's Index* was up to 61.2. This is the strongest reading almost six and a half years.

Asia/Australasia

By: Dave Schiller

Moody's Investors Services put G20 economic growth at over 3% this year. The major risks are from US protectionism and China's deleveraging. Nevertheless, China's growth forecast was raised from 6.6% to 6.8%. Japan's was raised from 1.1% to 1.5%.

In **China**, the *PMI Manufacturing Index* was higher in August, moving from 51.1 to 51.6. This shows modest expansion and appears to reverse contraction in the sector from earlier in Q2.

The *CFLP Manufacturing Index* increased in August from 51.4 to 51.7. This beat expectations which called for a minor decrease. This is now five consecutive months of increases in the index.

In **Japan**, the *PMI Manufacturing Index* moved up a tick in August from 52.1 to 52.2. The index has moved up for twelve months in a row.

Industrial Production fell 0.8% in July. This was more than expected as June's increase of 2.2% growth. Year/year, growth is at 4.7%. Early reports suggest that August will be up.

The *Unemployment Rate* held steady at 2.8%. The participation rate increased to 60.8%. These are some of the best employment data in decades.

Household Spending dropped 1.9% in July as annualized spending is now -0.2%. Cost of housing is the primary driver of the decline.

In **India**, *GDP* fell from 6.1% to 5.7%. Analysts expected an increase of 6.6% so this is a bit disappointing. This could impact the Reserve Bank of India to consider further lowering interest rates at the October meeting.

PMI Manufacturing reversed course in August. After showing contraction in July (47.9), August's data indicates expansion (51.2). The government instituted a goods and services tax and the data appears to show a rebound from its impact.




Market Review

Index	Close	Week Change	% Week Change	% YTD Change
DJIA	21987.56	173.89	0.80%	11.26%
NASDAQ Composite	6435.33	169.69	2.71%	19.55%
S&P 500	2476.55	33.50	1.37%	10.62%
FTSE 100 (UK)	7438.50	37.04	0.50%	4.14%
DAX (Germany)	12142.64	-25.30	-0.21%	5.76%
CAC 40 (France)	5123.26	18.93	0.37%	5.37%
IBEX 35 (Spain)	10325.50	-19.80	-0.19%	10.41%
FTSE MIB (Italy)	21858.56	112.06	0.52%	13.64%
Swiss Market (Switzerland)	8941.62	35.44	0.40%	8.78%
Nikkei 225 (Japan)	19691.47	238.86	1.23%	3.02%
Hang Seng (HK)	27953.16	105.00	0.38%	27.06%
Shanghai Composite (China)	3367.12	35.60	1.07%	8.49%
S&P BSE Sensex (India)	31892.23	296.17	0.94%	19.78%
S&P/ASX (Australia)	5724.60	-19.30	-0.34%	1.04%
10-Year US Bond Yield	2.168%			

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

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