Investment Weekly

September 5, 2017

Special Edition

The week began with Hurricane Harvey dominating the headlines. Over four days, Harvey dropped up to 52 inches of rain on parts of Texas and Louisiana, resulting in 100,000s of homes flooded, more than 30,000 people displaced, and more than 17,000 people rescued. In economic terms, Harvey looks to be the most expensive storm in US history. Initial estimates peg the cost of the damage at over $190 billion, above Hurricane Katrina's estimated cost of $160 billion. That said, while the damage is immense, and we extend our thoughts to those who must contend with its aftermath, the economic impact on the U.S. as a whole is not expected to be major. In reviewing other events of such magnitude, we should expect unemployment readings to worsen at the margin just as economic trends should soften. Yet, in all likelihood, these will prove temporary once the rebuilding efforts are fully underway.

Harvey's impact will obviously be more evident in the energy complex which is already being manifested in prices at the gas pump which are up some 15-20 cents/gallon. But here too, the long-term effects will likely prove to be relatively modest. A bigger source of uncertainty rests with how Congress responds, as some sources have reported that hurricane relief funding could be tied to an increase in the debt ceiling. Stay tuned.

In the face of Hurricane Harvey, rising geopolitical tensions in North Korea and violent protests in Charlottesville, it is nothing short of remarkable that consumer confidence continued to climb. Last week, it was reported that this closely watched sentiment gauge rose in August to a reading of 123, its second highest reading since 2001.

The driving force behind consumers' optimism is a positive employment backdrop, which was also on display last week. To wit, on Friday, the BLS announced that 156,000 jobs were added last month and the unemployment rate hovered just under 4.5%. Wage growth remained relatively subdued, rising a muted 2.5% year/year and the growth in payrolls modestly trailed projections. Nonetheless, when considering the age of the current economic expansion, the state of the U.S. job market remains healthy.

Consumers' confidence was also evident in an upward revision of Q2 U.S. GDP which improved from 2.6% to 3.0% which was driven by an increase in personal spending. Skeptics are right in pointing out that GDP is a lagging indicator and the recent job growth is decelerating. However, the ISM Manufacturing Index – a leading economic variable – moved up to 58.8 last month, a six year high (any reading above 50 suggests expansion). The equivalent ISM Services Index will be reported this Wednesday and it should similarly signal economic strength.

Overseas, while Brexit talks hit a stalemate last week, the European Commission reported that its Economic Sentiment indicator rose to 112, its highest reading since July 2007. Elsewhere in Europe, unemployment remained at 9.1%, paced by German unemployment which ticked down to 3.7%. In our view, this suggests that the European recovery is still in the middle innings whereas one would have a difficult time arguing the same is true for the U.S. Elsewhere, Japanese unemployment held steady at 2.8%, and China's Manufacturing Producer Manufacturing Index moved up slightly to 51.7, a solid reading for the month.

Interest Rate	Current	1 Mo. Ago	1 Yr. Ago
Effective Federal Funds Rate	1.07%	1.07%	0.30%
Target 90-day T-bill	0.99%	1.03%	0.31%
U.S. 2-yr Trsy Yield	1.34%	1.35%	0.79%
U.S. 10-yr Trsy Yield	2.17%	2.26%	1.60%
U.S. 30-yr Trsy Yield	2.78%	2.84%	2.28%
U.S. 5-yr Muni Yield	1.26%	1.38%	1.07%
Investment Grade Yield	3.45%	3.47%	3.25%
High Yield	6.09%	5.60%	6.28%

Index Returns	WTD	MTD	YTD	1-Yr.
S&P 500 Large Cap	1.43%	0.20%	12.16%	16.47%
S&P 400 Mid Cap	1.73%	0.40%	5.70%	12.89%
S&P 600 Small Cap	2.39%	0.79%	1.91%	13.90%
S&P Developed Mkts ex-U.S.	0.71%	0.47%	17.82%	17.54%
S&P Emerging Markets	1.10%	0.45%	27.89%	24.73%
Bloomberg Commodity	2.04%	0.38%	-2.35%	4.23%
Barclays U.S. Aggregate	0.07%	-0.18%	3.45%	0.33%
Barclays Municipals	0.11%	-0.02%	5.18%	0.97%
Barclays U.S. High Yield	0.39%	0.06%	6.12%	8.74%
HFRX Eq. Wgt. Hedge Funds	0.31%	0.00%	3.29%	4.94%

Source: Bloomberg All data as of market close: 09/01/2017

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