What Caught Our Eye This Week

European businesses are on a solid growth trajectory. Although we will not know its Q2 gross domestic product (GDP) until it is released on August 1st, the European Union (EU) Q1 GDP growth was a solid 2.0%, and it is expected to remain near the same level for the remainder of this year. Compared with the U.S., the 28-country trading block has consistently reported stronger manufacturing and business conditions since the beginning of the year. Unemployment in the EU is higher than that in the U.S., but it has been declining for four years, and in some countries like Germany and the United Kingdom, it is comparable to ours. Europeans also have a very sanguine outlook for the future. According to consumer confidence measures, European consumers are more optimistic with respect to the economy than they have been in over 16 years. Additionally, since the beginning of the year, European stock indices are now outpacing that of the United States for the first time in five years. This relative strength reflects the anticipation of continued strong earnings growth over the next couple of years.

Economy

This week all of the significant news was released on Friday. The retail sales data came in well below expectations with a decline of 0.2%. The all important control category, which excludes food service, autos, gas and building materials, was down 0.1%. The headline figure was held down by a 1.3% decline in sales at gas stations, and the non-store retail category only advanced by 0.4%. Also, on Friday, the consumer price index registered no change in June and is now up 1.6% year-over-year. The “core” CPI advanced by 0.11% and is up 1.7% year-over-year. This closely watched metric is still well short of what would be consistent with the Fed’s inflation objective. The good news on Friday was industrial production figures which came in better than expected rising by 0.4% in June, while manufacturing output advanced by 0.2%. Earlier in the week, the JOLTS report (Job Openings and Labor Turnover Survey) showed job openings declining by 301,000 to 5.7 million. The “quits” rate increased to 2.2%, and the 12 months employment gain is now at 2.4 million. Finally, the weekly jobless claims numbers declined by 3,000 to 247,000 during the week ending July 8th. The four-week moving average is now at 246,000.

Fixed Income/Credit Market

On Wednesday, yields across the U.S. Treasury curve decreased after Fed Chair Yellen stated in her testimony that the FOMC would consider changing the course of monetary policy if inflation persists below the targeted 2% for a prolonged period of time. However, inflation has remained below 2% for approximately eight years with the exception of four months in 2012. Despite that, the Fed has lifted interest rates 25 basis points (bps) four times since December 2015. As long as the Fed’s inflation forecast remains at 2%, they will attempt to normalize rates. Furthermore, Chair Yellen stated that downward pressure can be applied to interest rates by discontinuing the Fed’s balance sheet reduction and purchasing debt again. On the week, the yield curve compressed roughly 2 bps as both long and short tenors rallied. At the long end of the curve, 10-year Treasury yields dropped over 5 bps to 2.33%.

Equities

The market drove to record levels this week as the Fed took center stage. Unfolding political narratives surrounding the Trump administration earlier in the week briefly destabilized the broad market. However, the weakness was very short lived when Fed Chair Janet Yellen’s Congressional testimony comments were perceived as dovish. The market moved broadly higher with most sectors experiencing Fed lift and even the fragile energy sector gained for the week. International markets were also boosted by central bank enthusiasm, with developed overseas markets hovering towards earlier highs and emerging markets moving towards new highs. Some large banks reported results this week, and despite appearing in line with expectations, financials experienced weakness. Next week, the earnings reporting picks up and will shed new data points of corporate business conditions.

Northern Financial

On Wednesday, Northern Financial released its Q2 earnings report. The company reported a net income of $3.2 million, or $0.25 per diluted share, versus a net income of $2.5 million, or $0.19 per diluted share, one year ago. For the quarter, revenue increased by 16% to $33.5 million from $29.0 million in the comparable period last year. The year-over-year increase in revenue was primarily attributed to higher growth in the manufacturing and transportation segments.

Forecasting the Future

The stock market is currently facing several important factors that could impact its performance. The Federal Reserve is expected to raise interest rates in the coming months, which could have a negative impact on the market. However, the economy is expected to continue growing at a steady pace, which could provide a buffer against potential rate hikes. Additionally, the political landscape is uncertain, with ongoing discussions about trade policies and tax reform. These factors could have a significant impact on the market in the coming weeks.

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