Focusing on the Data and the Fed

Bond yields are creeping slightly higher and stocks are up for the second straight day in the midst of an extremely volatile week in which uncertainty took center stage. Now that things have calmed a bit, analysts are focusing on the numbers, and on the whole the data doesn’t seem to support multiple rate cuts...at least not yet. Yesterday, retail sales rose +0.7% in July, easily topping the +0.3% median Bloomberg forecast. Total retail sales over the last three months are up +3.3% from the same period a year ago. This is good. The retail sales’ “control group” used in the GDP calculation climbed a solid +1.0% in July, the fifth straight month of impressive spending. With the exception of a decline in auto sales, July growth was broad-based across a range of categories. Bank of America/Merrill Lynch pointed out two unusual contributing factors to the summer spending spree – the two-day “Prime Day 2019” (July 16-17) was the biggest shopping event in Amazon history, reportedly topping sales on Black Friday and Cyber Monday combined, and July was the hottest month in global history, and for whatever reason, people have a tendency to spend more during heat waves. Economists have revised Q3 forecasts higher after another round of strong consumer spending in July. It’s still very early, but GDPNow measures from both the St. Louis Fed and the Atlanta Fed are tracking Q3 GDP at +2.2%.

Recent survey data has been mixed. The National Association of Home Builders/ Wells Fargo Housing Market Index climbed a point in July to 66, matching a high for the year....subcomponent measures of current sales and buyer traffic also reached highs for the year. On the factory side, the Philadelphia Fed Index and the Empire Manufacturing Index both topped forecasts in August. But, consumer confidence has slipped in August. The Bloomberg Consumer Comfort index fell for the second straight month, experiencing its biggest back-to-back drop since 2011, and the University of Michigan Consumer Sentiment Index survey dipped from 98.4 to 92.1, the second lowest reading during Trump’s presidency. The Conference Board’s confidence index won’t be released for another 11 days, but when last tallied the headline index was at the third highest level in 19 years. This optimism doesn’t fit the current narrative, but July had everything to do with low unemployment and what had been record stock market levels. Stocks have since dropped and fear has crept into the picture, eroding confidence very quickly.

This morning, housing starts for the month of July fell by -4.0% to an annual pace of 1.191 million units. This marked the third straight month of decline in starts. However, building permits (a more forward-looking indicator) jumped +8.4% to 1.336 million units, the highest level of the year. This, along with the elevated home builders index, suggests the recent plunge in mortgage rates could finally be providing a spark to the housing market. Put this one in the positive category.

Next Thursday, Fed officials, economists, academics, government representatives and other market participants will gather at the annual Economic Policy Symposium in Jackson Hole, Wyoming with Chairman Powell scheduled to speak next Friday. Investors will be listening closely to hear Powell’s response to recent signs of steady economic growth and indications that inflation is moving in the right direction. The question is whether the Fed will let its primary mandates dictate monetary policy or whether they’ll bow to political and market pressure.

Please see analyst certifications and disclosure starting on page 2.
Market Indications as of 10:40 A.M. Central Time

DOW Up 263 to 25,842 (HIGH: 27,359)
NASDAQ Up 118 to 7,885 (HIGH 8,330)
S&P 500 Up 38 to 2,886 (HIGH 3,026)
1-Yr T-bill current yield 1.73%; opening yield 1.71%
2-Yr T-note current yield 1.51%; opening yield 1.50%
5-Yr T-note current yield 1.45%; opening yield 1.43%
10-Yr T-note current yield 1.57%; opening yield 1.53%
30-Yr T-bond current yield 2.02%; opening yield 1.98%