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“Investors remain optimistic amid geopolitical uncertainty”

August is traditionally characterized with lower trading volume when some on Wall Street head to vacation to enjoy the last few days of the summer while Congress is also in recess. However, with the upsurge of domestic political issues, escalating U.S.-North Korea tensions, and devastating flooding in the Houston area caused by Hurricane Harvey, the equity markets experienced higher volatility in August. Some market segments were even pushed into negative return territory. Despite the uptick in volatility, the macroeconomic backdrop remains solid thanks to earnings momentum and a positive trend in retail sales. Overseas, developed markets were flat despite the better-than-expected growth data posted by many European countries and Japan. Solid market gains in the emerging markets were mainly driven by a weak dollar and positive economic data from China and Brazil.

The U.S. economy continued to deliver robust economic data as indicated by an upward revision of the second-quarter GDP growth from the previously reported 2.6% pace in July to a 3% annualized rate. Economic growth is estimated to hover around 2% in the second half of the year despite the Trump administration’s struggles to implement its tax reform plans. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, increased 0.3% in July due to higher incomes and low inflation, however, this figure was slightly lower than the consensus forecast of a 0.4% increase. Capital expenditures surged at an 8.8% rate, which was the fastest growth in nearly two years. Meanwhile personal income had a muted growth rate of 0.1% in August and 2.5% over the past 12 months. With consumer spending outpacing personal income, the savings rate declined by 1.6% over the last year from 5.1% to 3.5%.

Retail sales increased by 0.6% month-over-month in July, growing at a solid pace of 4.2% YOY. Meanwhile the University of Michigan’s consumer sentiment index registered at 96.8, below the preliminary reading of 97.6. Despite the consumer sentiment downward revision, consumers are still feeling optimistic about their finances as a result of low inflation, strong job market, home appreciation, and solid gains in their equity portfolios. Corporate profits grew by \$12.9 billion, or 0.8% in the second quarter, posting a solid increase of 8.1% YOY. With regard to the job market, the unemployment rate increased slightly to 4.4% from July’s 16-year low of 4.3%, whereas labor participation stayed at its lowest level in decades, at 62.9%. The Bureau of Labor Statistics reported that 156,000 non-farm payrolls were added in August, below consensus expectations but still essentially in line with the 12-month average of 174,000.

	August 2017	YTD
DJIA	0.65%	13.01%
S&P 500	0.31%	11.93%
NASDAQ	1.27%	19.42%
MSCI EAFE	-0.04%	17.05%
MSCI Emerging Markets	2.23%	28.29%
Barclays Aggregate	0.90%	3.64%
Barclays Corp High Yield	-0.04%	6.05%
	8/31/2017	7/31/2017
US 10-Year Treasury	2.12%	2.30%

In terms of inflation, consumer prices ticked up by 1.7% year-on-year in July, below consensus expectations of 1.8%. The less volatile core CPI (Consumer Price Index), which excludes prices of food and energy, stayed at a two-year low of 1.7% in July, consistent with June’s reading and market expectations. With disappointingly low inflation, the market-implied probability of a U.S. Federal Reserve rate hike in December remained at 34%.

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The major U.S. equity indexes posted slightly positive returns in August with the DJIA adding a 0.7% gain, whereas S&P 500 was up 0.3%, which was its fifth positive month in a row. Year to date, both indexes registered impressive double digit returns with the Dow gaining 13% and the S&P 500 tacking on 11.9%. The tech-intensive NASDAQ outpaced both indices, gaining 1.3% for the month, which brought the year-to-date return above 19%.

Internationally, Europe continues to benefit from improving economic momentum with second-quarter GDP growth coming in at 2.2%, its highest level since 2011. With inflation at 1.5%, below the European Central Bank policy target of 2%, the council noted that the quantitative easing should continue in the near term to stabilize the current environment, targeting 2018 as the start of policy normalization. The MSCI EAFE Index slightly declined by 0.04%, penalized by the stronger euro, however, year to date the index has gained a solid return of 17%. Emerging markets, as measured by the MSCI Emerging Market Index, continue to lead the surge with a 2.2% gain in August, delivering the best results with a 28.3% return since the start of the year.

Most fixed income sectors were in positive territory in August with the Barclays Aggregate Bond Index adding 0.9% and delivering a 3.6% return in the last eight months. Meanwhile, the corporate focused Barclays U.S. High Yield Index lost -0.04% but has gained over 6% thus far this year.

Healthy economic growth data, strong labor markets, and solid corporate earnings provide a positive backdrop for the equity markets, however, the economic numbers are not uniformly optimistic as shown by the weaker inflation number and muted wage growth data. The stock market is keeping a close eye on the mounting North Korea tensions and the federal debt ceiling that is expected to be reached at the end of September. Geopolitical threats, domestic political issues, and Federal Reserve policies may heighten the market volatility and increase the risk of a pullback or correction in the next few months.

For previous market commentaries please click [here](#).

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measure the value of residential real estate in 20 major U.S. cities.

Michigan Consumer Sentiment Index is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Conference Board's Consumer Confidence Index an index by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.