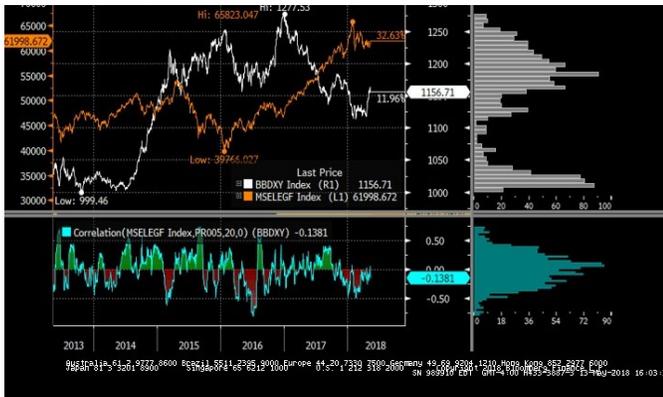


## Stone's Weekly Market Guide - Week of May 14, 2018



**Chart of the Week:** There has been much talk that a strengthening U.S. dollar (USD) weighs on emerging market assets including stocks. While it is an attractive theory, this chart shows that emerging market stocks in local currency terms are often positively correlated with the USD. Even in rising USD environment, emerging market stocks have sometimes moved higher as well. Certainly a rising USD decreases the unhedged return to a U.S. investor, but that is a function of currency translation not automatically an issue with the value of the underlying asset.

### Week in Preview:

- U.S. data includes: April retail sales, housing starts and building permits with nothing expected to change the positive momentum of the economy. Plenty of Fed speak for the bond market to monitor is also on tap.
- Eurozone data: May ZEW expectations surveys are the main forward-looking indicator with data this week likely confirming that the Eurozone's growth slowed in 1Q from 4Q 2017. Lots of ECB speak including President Draghi. U.K. has labor data with the March unemployment rate and household income.
- Japan releases 1Q GDP with estimates for slow growth at best and down from 1.6% in 4Q 2017. If GDP is positive, it will mark the ninth straight quarter of growth. April consumer inflation (CPI) is expected to slow but remain positive year-over-year.
- Data from China includes: April retail sales, industrial production and fixed assets. Vice Premier Liu He is coming to D.C. for trade talks, so expect some headlines on that front.
- Central banks of Thailand, Iceland, Brazil, Poland, Indonesia, Mexico and Egypt are scheduled to meet. Both Brazil and Egypt are expected to cut rates. Indonesia may be forced to raise rates as rupiah has been under severe pressure.
- MSCI releases its emerging markets index review. The index will include China A shares for the first time come June. China A shares are yuan-denominated shares traded on the mainland.

### Week in Review:

- Estimates of U.S. economic growth in 2Q didn't change much based on the data. Both the Atlanta and NY Fed estimates for 2Q increased modestly. NY Fed estimate is now 2.97% as of May 11. April CPI did come in a bit below estimates with the core holding at 2.1% year-over-year rather than increasing as expected.
- The Bank of England met and lowered GDP and CPI estimates. This decreased the market-implied odds of the next hike with the September meeting now the first one pricing in more than a 50% chance of a hike. The European Central Bank (ECB) also made note of the "moderation in the pace of growth" since the start of 2018.
- Global risk appetite returned with stocks moving higher. Global yields moved higher while credit spreads improved in the U.S. Commodities and oil rose with oil's ascent continuing after President Trump announced that the U.S. would be withdrawing from the Iran nuclear deal.
- For U.S. stocks the real winner was the momentum factor with most implementations well ahead of the S&P 500. Interest rate sensitive S&P 500 sectors (utilities, staples) were weak, but REITs bucked the trend and might be shaping up as a future opportunity in my opinion.

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