

Stone's Weekly Market Guide - Week of August 19, 2018



Chart of the Week: Does PMI data matter? My past [research](#) shows significant efficacy in “nowcasting” economic growth. In addition, PMI releases often impact the financial markets. While it looks like global PMI readings may have peaked and certainly reflect a loss in momentum, all the large economies remain above the 50 level which indicates expansion. With all the talk about the yield curve moving toward signaling a possible recession, PMI data is another great indicator to watch. Our [work](#) indicates that the most quoted yield curve might be giving misleading signals currently. PMI data and an alternative yield curve indicate less recession risk.

Week in Preview:

- The data release calendar is pretty sparse, so headlines are likely to be dominated by geopolitical issues and statements from the U.S. Federal Reserve (Fed). The primary economic release will be global PMI readings for August, which will give a glimpse of how the largest economies are faring with all the trade noise. The Markit U.S. manufacturing PMI is expected to fall to a still robust 55.0 from 55.5, while the Eurozone reading is forecast to rise to 55.2 from 55.1 and Japan was last reported at 52.3 in July.
- Geopolitical: Markets will continue to watch for additional trade news with a 25% tariff on an additional \$16 billion in Chinese imports scheduled to take effect Thursday. China announced that it will retaliate in kind. Trade talks between the U.S. and China are scheduled to continue this week. Reports indicate that a bilateral NAFTA trade deal with Mexico is making progress. Turkey is likely to remain in the news as its fundamental weaknesses are not easily solved. Please see our [blog post](#) from last week for details.
- FedSpeak: The FOMC minutes for August 1 are released on Tuesday and the Fed's Jackson Hole symposium kicks off on Thursday. Chair Powell will speak at Jackson Hole on Friday. Investors will be listening for clues whether the Fed might deviate from its “gradual” tightening pace. Markets are already pricing in a 90% chance of a 0.25% hike when the FOMC next meets on September 26.
- U.S.: July housing data continues with existing and new home sales expected to increase. Durable goods orders for July cap off the week. 3Q GDP estimates from the Atlanta and NY Fed are 4.25% and 2.39%.
- Europe: Brexit negotiations continue with the currency signaling its concern about the chances of reaching a deal. The British currency (GBP) has now posted 6 straight weekly declines against the U.S. dollar.
- Asia: Japan reports July consumer inflation (CPI) which should rise to 1.0% year-over-year.
- The central banks of Mauritius, Hungary, Zambia and Botswana meet. Hungary is expected to hold their policy rates steady.

Week in Review:

- The S&P 500 was higher with yield oriented sectors like utilities, staples and real estate leading. Both developed international and emerging market stocks declined with EM particularly weak. The 10-year U.S. Treasury yield fell to 2.86%. High quality global yields also declined with the German 10-year at 0.3%.
- The 10-2 yield curve flattened to a new post-Great recession low during last week and ended at 25.5 basis points, but our improved measure of 3 month 6 quarters forward – 3 month steepened to 74.4 basis points. Please see our past [post](#) for our analysis of the economic and financial market implications.

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