Market Review

August 2017

Stocks were mixed in August, with large-cap stocks (as measured by the S&P 500 Index) up 0.3%, while small-cap stocks (as measured by the Russell 2000 Index) declined 1.3%. Growth outperformed Value, with the Russell 1000 Growth index climbing 1.8%, versus a 1.2% decline in the Russell 1000 Value Index.

Geopolitical and weather-related developments fueled volatility, with the VIX spiking approximately 60% early in the month. Markets reacted negatively to domestic politics, as President Trump threatened government shutdown if Congress should fail to fund his much-ballyhooed wall along the Mexican border.

Markets also digested a flurry of activity in the Korean Peninsula, as the North Korean regime conducted a missile test over Japanese airspace, and North Korean leader Kim Jong Un traded threats with President Trump. While these events increased anxiety, market volatility has been relatively short-lived. After North Korean fired a test missile over northern Japan, markets in Asia slid between 1% to 1.5%, but quickly recovered most of their losses. The pattern continued here in the U.S., as major indices opened down roughly 0.5% before moving into positive territory.

Gasoline prices rose sharply as Category 4 hurricane Harvey dumped more than 50 inches of rain on the greater Houston area, causing historic levels of flooding. Crude oil prices actually declined over 3%, as approximately 15% of U.S. refinery capacity was disrupted, creating an excess supply as crude oil awaited further processing.

Turning to economic data, the consumer remains strong, with the Conference Board's consumer confidence index rising to 122.9 in August, up from a revised 120.0 in July. Revised data from the Commerce Department showed that GDP grew 3.0% (up from an initial 2.6%) in the second quarter. This figure represents the largest rate of growth in over two years. Stronger household and business spending were partially offset by tighter purse strings among state and local governments. More recently, the Institute for Supply Management's Purchasing Manager Index rose to 58.8% (a reading over 50% is considered expansionary) in August, an increase of 2.5% from the July reading of 56.3%.

While economic growth has picked up, July's consumer price data (the latest data available from the Commerce Department) showed an increase of just 0.1% for the month and a moderate 1.4% year-over-year. The employment picture moderated in August, with the economy adding a seasonally-adjusted 156,000 jobs, somewhat below expectations. As a result, the unemployment rate ticked up slightly to 4.4%.

Modest inflation, coupled with a strong but not overheating jobs picture, might forestall the Federal Reserve's need to raise interest rates in the short term. However, rates could also be indirectly impacted by the Fed's continued unwinding of its balance sheet, as such sales could push down bond prices (thus raising yields).

Geopolitical events are notoriously difficult to predict, and may weigh on the markets in the near future. That said, our focus remains steadfast on bottom-up stock selection: we will continue to seek stocks with attractive relative valuations and the potential to exceed expectations.

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Disclaimer

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