Week of June 19, 2017

Markets Sputter Along as Economic Data Disappoints

Last week saw several disappointing economic developments globally. Here in the U.S., inflation, retail sales, consumer sentiment and industrial production all came in below expectations. Overseas markets also saw disappointing results among Germany's ZEW Survey (which measures economic optimism levels) and inflation data, as well as Japanese machine orders and Chinese money supply growth.

The Federal Reserve Board raised the federal funds target interest rate last week and maintained its forecast for one more interest rate increase this year. The Fed also maintained its balance sheet reinvestment operations and laid out a plan to reduce the size of that balance sheet, stating that it could put the plan into effect relatively soon.

In the U.S., financials (including banks and REITs) outperformed. Technology was the worst-performing sector, as fears of overvaluation fueled the continued tech stock sell-off, followed by metals and mining companies. On balance, however, market indices were relatively flat.

Internationally, emerging Asian markets and Australia performed well—driven largely by an absence of bad news compared to the rest of the world. Meanwhile, the so-called BRIC countries (which include emerging markets Brazil, Russia and China) were hardest hit as investors became more risk-averse during the week.

In the fixed-income arena, U.S. long-term bonds (including government and corporate issues) were top performers for the week, driven in part by weaker-than-expected economic data. International bonds suffered as sovereign debt concerns once again emerged.

GAIN: Active Asset Allocation

Global stocks have been jittery during the past few weeks, as investors have become increasingly nervous about economic and geopolitical concerns. Last week, international stocks lagged the U.S. equity market while small-caps underperformed large-company stocks. Stocks with the strongest price momentum sold off the most, due in part to institutional investors' efforts to

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protect their on-paper gains as the end of the second quarter approaches.

Meanwhile, bonds were up for the week as the increase in perceived equity risk prompted investors to favor relatively stable fixed-income assets.

PROTECT: Risk Assist

Many segments of the global asset markets last week exhibited “head fake” behavior: The assets would sell off at some point during a trading session, only to rebound and remain nearly unchanged on the day. This was the case for equities, fixed-income and currencies. (The outlier was commodities, which finished down for the week.)

As one example, the price of options on the Nasdaq shot higher on Monday as that index continued its decline from the previous session. But by Wednesday those options were cheaper than they had been prior to the selloff.

SPEND: Real Spend

With some of the largest stocks in the S&P 500—and specifically the technology sector—coming under pressure last week, it’s a good time to take look “under the hood” at the holdings within the Real Spend portfolios. The largest holdings have a focus on quality—such as dividend-paying stocks and low-volatility stocks, both of which have performed well recently.

In addition, the Real Spend portfolios’ spending reserves serve as both a source of liquidity and as a buffer against volatility in the markets. The spending reserves remain at full capacity (generally three years’ worth of distributions) and seek to be much more resilient to market fluctuations than the rest of the portfolios.

As we examine the state of inflation, the Federal Reserve Board last week noted that inflation expectations have declined recently (which we also see in market prices). Expectations of inflation have declined to 2.15% from 2.25% within the last month.