



Week In Review

August 3, 2018

U.S. Economy

Consumer spending in June rose 0.4% from May, and May spending was revised up to a 0.5% gain from April. Disposable income rose 0.3%, and the Fed's preferred inflation measure was up 2.2% year-over-year. The economy added 157,000 jobs in July, and June gains were revised up to 248,000. Earnings rose 2.7% year-over-year, participation was unchanged, and the unemployment rate dropped to 3.9%.

Our Take: Both of these results show continued expansion in the U.S. economy and firming inflation. These results are unlikely to alter the Fed's policy trajectory.

Trade

Reports surfaced of talks between representatives of Mnuchin and Chinese Vice Premier Liu to restart trade negotiations. However, President Trump also directed the USTR's office to examine imposing a 25% tariff on an additional \$200 billion of imports from China rather than just a 10% tariff. The Chinese government announced that it has a list of goods comprising \$60 billion of imports from the U.S. on which it will impose tariffs if the U.S. implements more tariffs.

Our Take: After a brief flash of hope that the U.S. and China may be able to negotiate a de-escalation of the current trade conflict, it now appears that the Trump administration is determined to further escalate the conflict in hopes of motivating changes to China's trade and foreign investment policies. The escalating trade conflict is a severe threat to global growth.

FOMC Meeting

As expected, the Federal Reserve Open Market Committee (FOMC) announced its decision to maintain the federal funds rate at the current target of 1.75% to 2.0%. According to the Fed statement, the labor market continued to strengthen and economic activity has been "rising at a strong rate." The committee noted that both household spending and business investment have "grown strongly," and unemployment has stayed low. The committee also stated that inflation remains near its 2% target.

Our Take: Unemployment is low, growth is accelerating, and inflation is near the Fed's 2% target. Nothing in the statement hinted that the Fed plans to deviate from its forecast of two additional rate increases in 2018 and continued balance sheet reduction.

Japan

The BOJ reiterated its commitment to monetary stimulus, while also making some tweaks to policy aimed at reducing market distortions and strains on commercial banks caused by the current policy. One of the significant tweaks is to allow 10-year JGB yields to deviate as much as 20 basis points from the 0% target. Longer U.S. and European yields rose in response to these developments.

(continued from page 1)

Our Take: Kuroda is determined to press on with monetary stimulus. The reaction in global bond markets to these small policy tweaks indicates the extent to which major central banks have distorted markets with their policies over the past decade.

Municipals

Chicago will have its smallest budget deficit since 2007, according to a report released this week. Chicago's 2019 budget deficit is expected to be almost \$98 million. In addition, the city's pension liability dropped from \$35 billion last year to \$28 billion this year. Mayor Rahm Emanuel stated this week that he is "proud of the fiscal work we have done" and that the city has "more work to do."

Our Take: Chicago is on the right track. Chicago's budget deficit at this time last year was expected to be \$114 million. In 2011, the city had a deficit of \$635 million. While the city has made progress and is taking steps to improve its fiscal health, leaders should continue to focus on meaningful pension reform along with closing the budget gap.

To reach a representative for your region, please contact:

U.S. West Region (AK, AR, AZ, CA, CO, HI, IA, ID, IL, KS, LA, MI(UP), MN, MO, MT, ND, NE, NM, NV, OK, OR, SD, TX, UT, WA, WI, WY):

Joel Dykman (608) 609-4141 jdikman@reinhart-partnersinc.com

U.S. Southeast Region (AL, DC, FL, GA, KY, MD, MS, NC, PR, SC, TN, VA, WV):

Christopher Rhyne (336) 817-8206 crhyne@reinhart-partnersinc.com

U.S. Northeast Region (CT, DE, IL, IN, MA, ME, MI, NH, NJ, NY, OH, PA, RI, VT)

Christopher Hodges (443) 326-1875 chodges@reinhart-partnersinc.com

All expressions of opinions are subject to change without notice in reaction to shifting market conditions. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice.