



Week In Review

August 30, 2019

Personal Income and Spending

July personal income rose 0.1%, while personal spending increased 0.6%.

Our Take: The increase in spending was greater than anticipated as consumers continue to be the driving force behind economic growth. On the flip side, income grew less than the expected 0.3%. Strong spending is unlikely to continue should consumers see a sustained slowdown in income growth.

Brexit

Prime Minister Johnson suspended Parliament from September 10 until October 14 in an effort to prevent members from enacting legislation to block a No Deal Brexit. This move was highly controversial and is likely to result in lawsuits to block it.

Our Take: Johnson is betting that the blocs in Parliament who want to preclude a No Deal Brexit are too fragmented to implement legislation or to form a government following a vote of no confidence prior to the suspension. This move greatly increases the likelihood of a No Deal Brexit at the end of October.

Italy

President Mattarella gave Prime Minister Conte a mandate to form a government based on a coalition of Five Star and the PD. Such a government is expected to be more pro-EU than the previous Five Star/League coalition. Spreads on Italian government bonds relative to Bunds tightened on the news. This coalition will need to agree on a few contentious items over the next week in order to form a government, and then that government will need to develop a budget that meets EU fiscal standards by the end of October.

Our Take: Five Star and the PD will have a very difficult time agreeing on key items. While the avoidance of snap elections that would most likely lead to a League-led government reduced the risk of another budget battle between Rome and Brussels, it is difficult to see this new coalition lasting for long, and the League will be looking to force elections as soon as possible.

China

Chinese officials indicated that they might delay their response to the latest round of tariffs due to go into effect on Sunday, and President Trump indicated that there was a discussion between the two sides on Thursday afternoon. Stocks rallied on this news.

Our Take: Capital markets are fixated on developments in the ongoing trade war. Even if the escalations of the last few weeks do not come into effect, the level of uncertainty around trade is likely to negatively impact growth.

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Municipals

Moody's Investor Services upgraded the state of Washington from Aa1 to Aaa. The upgrade affects \$19.4 billion bonds according to Bloomberg. This marks the first time Washington has received Moody's highest rating. Moody's cited the state's strong and diverse economy along with an increase in financial reserves as reasons for the upgrade.

Our Take: Washington's economy has experienced continued growth and has become less reliant on aerospace. The upgrade to Moody's highest level based on the state's financial strength is good news for bondholders.

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