

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished a strong July at 25,415, up 4.71% for the month and +2.82% year to date. The S&P 500 closed July 31 at 2,816, up 3.60% for the month and 5.34% so far for the year. The NASDAQ Composite gained 2.15% in July, up 11.13% so far in 2018. Small company stocks as measured by the Russell 2000 ended July at 1,671, gaining 1.69% for the month and 8.81% year-to-date. Healthcare (+6.54%) and Industrials (+5.88%) were the strongest performing sectors in July.

"Tariffs remain a central concern and an important driver of economic and market action. They probably affected second-quarter GDP by causing exporters to speed up deliveries- particularly of farm products- ahead of the new duties." Barron's, [The Trader](#) by Avi Salzman, July 27, 2018

GDP Growth

The first estimate for GDP growth in Q2 was 4.1%, the fastest pace of economic growth since 2014. Consumer spending, government spending, and business fixed investment all saw solid gains for the quarter. An increase in exports also contributed to growth, although many expect this to have been a temporary spike as buyers and sellers rushed to complete transactions before a round of tariffs went into effect in July. Residential fixed investment, or home buying, was one of the few data points to have seen declines, possibly a reflection of rising mortgage rates, lack of inventory, or tax code changes which limit popular deductions for homeownership. The Federal Reserve's current forecast for full year GDP growth in 2018 is 2.8%, which would be one of the strongest years of growth since 2006. Risks are increasing, however, heading into 2019 as ongoing trade negotiations, inflation, and rising interest rates persist.

Corporate Profits

With 53% of the S&P 500 reporting, the blended earnings growth rate for Q2 is 21.3%, the second highest earnings growth rate since 2010. The blended sales growth rate is 9.3%, the highest sales growth rate since 2011 and consistent with the increases in consumer and business spending observed in the latest GDP report. FactSet is reporting that while an increasing number of companies are mentioning tariffs in their earnings releases, many are reporting that business results were not greatly affected in Q2. The uncertainty around tariffs, however, is increasingly being referenced and could affect companies as they make decisions on long-term projects and investments. The long-term implications are unclear, and market participants are continuing to balance these risks and uncertainties with the strong economic growth being observed. Many expect market volatility to continue in the near term.

"The latest round of earnings has helped reassure investors that the corporate profit recovery remains on solid ground even as trade tensions, rising interest rates and higher costs for things like labor and commodities have weighed on U.S. indexes in recent months. The S&P 500 has gained 0.5% since earnings season began in mid-July, bringing the index within 2% of its record high set in January." (The Wall Street Journal, [Investors Reward Earnings Strength With Stock Rallies](#), by Chelsey Dulaney, August 2, 2018)

Employment Reports

The unemployment rate fell to 3.9% in July, the second lowest level since April 2000. Wages grew at 2.7%, considered by many a moderate pace given the historically low unemployment rate. The overall labor participation rate remained unchanged although the participation rate among workers 25-54 years old increased to 79.5%, the highest level since 2007. Observers are continuing to watch for signs that the low unemployment rate is leading to above-trend wage growth, a signal that the Federal Reserve may increase interest rates at a more aggressive pace.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 06/29/2018	CLOSE AS OF 07/31/2018	CHANGE PREVIOUS MONTH END	2018 YTD % CHANGE
Dow Jones Industrial Average	24,271.41	25,415.19	+1,143.78	+2.82%
S&P 500	2,718.37	2,816.29	+97.92	+5.34%
NASDAQ Composite	7,510.31	7,671.79	+161.48	+11.13%
RUSSELL 2000	1,643.07	1,670.80	+27.73	+8.81%
Fed Funds Rate	1.75% - 2.0%	1.75% - 2.0%	UNCHANGED	
2-Year Treasury	2.52%	2.67%	+0.15%	
10-Year Treasury	2.85%	2.96%	+0.11%	
Crude Oil \$ per Barrel	\$74.15	\$68.76	-\$5.39	+13.80%
Gold \$ per Troy oz.	\$1,254.50	\$1,233.60	-\$20.90	-5.78%
UK Pound in U.S. \$	\$1.3203US = 1£	\$1.3118US = 1£	\$ STRONGER	-3.03%
Euro in U.S. \$	\$1.1676US = 1€	\$1.1701US = 1€	\$ WEAKER	-2.56%
Canada \$ per U.S. \$	\$1.3154C \$1.00 US	\$1.302C \$1.00 US	\$ WEAKER	+3.91%
Japan Yen per U.S. \$	110.765¥=\$1.00 US	111.94¥=\$1.00 US	\$ STRONGER	-0.63%



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