JULY 2019 | SECOND QUARTER

ANSON'S MONTHLY PLANNER

Quarterly economic updates from Anson Analytics

MUST-READS OF THE QUARTER:

Investing in Your Vacation

Macro-Trends to Watch in the 2nd Half of 2019

THE QUARTER IN BRIEF

In this Q2 recap:
stocks rise, fall, and then *soar*, as the Federal Reserves shifts its thinking and new chapters unfold in the ongoing U.S. and China dispute

The S&P 500 certainly rollercoastered during the second quarter of 2019, but it also gained 3.8% across those three months. U.S.-China trade negotiations unwound, but as the quarter ended, they showed signs of resuming. The Federal Reserve grew dovish. Yields on longer-term Treasury notes dipped and so did mortgage rates.

Consumers were confident, and consumer spending stayed strong. Mixed data emerged from the housing sector. Gold outperformed oil as well as many other commodities. The Brexit was delayed, and central banks in other countries elected to lower benchmark interest rates.

DOMESTIC

ECONOMIC HEALTH

TRUMP, TRADES AND TARIFFS

On May 5, President Trump announced that U.S. tariffs of 10% on $200 billion of Chinese products would rise to 25% and that virtually all other imports coming to the U.S. from China would “shortly” face tariffs.

China retaliated, declaring that it would hike tariffs already imposed on $60 billion worth of American products effective June 1. The trade talks between officials from the world’s two largest economies then hit a six-week standstill.

On June 29, however, President Trump announced at the Group of 20 summit in Japan that formal bilateral trade negotiations would soon resume and that the U.S. would hold off on tariffs slated for another $300 billion in Chinese goods.

The quarter ended with most futures traders believing that the Fed would make some kind of rate adjustment as soon as July.

Perhaps the Fed was also revising its expectations in light of declining inflation.

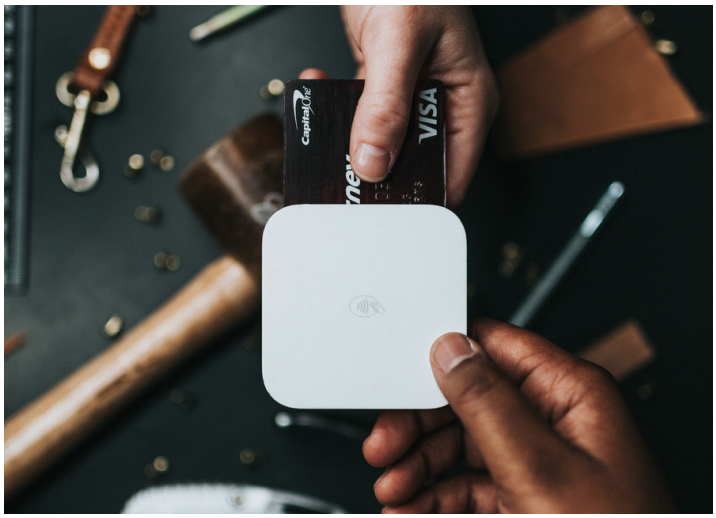
The May Consumer Price Index showed just a 1.7% annualized advance. Back in May 2018, inflation was running at a yearly pace of 2.8%.

DOMESTIC

ECONOMIC HEALTH

Some other indicators pointed to a soft patch in the economy in the spring, perhaps nothing more.

The Department of Labor reported 205,000 net new jobs in April, but only 90,000 net new jobs in May; unemployment did remain at 3.6% in both months, with the U-6 jobless rate, including the underemployed, actually descending from 7.3% to 7.1%.



The prime gauge of U.S. manufacturing health – the Institute for Supply Management Purchasing Managers Index – dropped notably to 52.8 in April, then declined to a 12-month low of 52.1 in May.

Even so, consumer spending remained solid.

Personal spending improved 0.5% in May, building on the 0.3% April gain.

Retail sales, coincidentally, were also up 0.5% in May and 0.3% in April. Personal incomes rose 0.5% in both months.

A lagging indicator worth noting: as the quarter ended, the Bureau of Economic Analysis affirmed that the economy grew 3.1% during Q1.

Key consumer confidence indexes stayed at high levels.

The Conference Board's consumer confidence index was at 129.2 in April, then at 134.1 in May and 121.5 in June.

The University of Michigan's consumer sentiment index hit an 8-month peak of 100.0 in May and ended the quarter at 98.2.

GLOBAL

ECONOMIC HEALTH

AROUND THE GLOBE

The Fed was not the only central bank reconsidering monetary policy during Q2.

Policymakers in Australia, Chile, India, New Zealand, and Russia all cut interest rates after May 1 in an effort to stimulate their respective economies.

Globally speaking, that constituted the most easing seen since the first half of 2016. Markets in Europe benefited from comments by Mario Draghi, President of the European Central Bank. Draghi said that he was prepared to loosen monetary reins in order to stimulate lethargic European Union country economies.

The Brexit was delayed.

After an acrimonious spring in Parliament that saw no progress toward ratifying a new trade pact between the United Kingdom and the European Union, the E.U. postponed the Brexit deadline until October 31.

Prime Minister Theresa May announced that she would resign, and based on election results, either current U.K. foreign secretary Jeremy Hunt or prior U.K. foreign secretary Boris Johnson will replace her later this month.

Johnson, widely considered the favorite, has told the media that while he does not want the U.K. to leave the E.U. without a deal, the U.K. would do well to prepare "confidently and seriously" for that possibility.

WORLD MARKETS

Gains were numerous in the quarter, with Argentina's Merval recording the largest at 26.02%. There was one other double-digit Q2 advance: Russia's Micex added 10.97%. Germany's DAX improved by 8.58%; Brazil's Bovespa rose 6.97%.

Other gains of note: France's CAC 40, 4.58%; the Euro Stoxx 50, 3.64%; the MSCI World, 3.35%; India's Sensex, 3.04%; Canada's TSX Composite, 1.74%; Japan's Nikkei 225, 1.42%.

GLOBAL

ECONOMIC HEALTH

The quarterly retreats included the 0.31% loss for the MSCI Emerging Markets benchmark, the 0.34% retreat for Spain's IBEX, and the 0.61% decline of China's Shanghai Composite.

COMMODITIES MARKETS

Examining second-quarter commodities performance, palladium had the best quarter among the metals, rising 18.23%.

Wheat finished first among the key crops, up 12.22%.

Ethanol topped the energy futures, advancing 8.74%.

Coffee rose 12.06%; corn, 9.51%; gold, 8.63%.

Gold ended Q2 at a price of $1,412.50 on the New York Mercantile Exchange.

RBOB gasoline added 4.56% of value in Q2, and silver rose 1.25% to a NYMEX value of $15.27 on June 28.

There were also copious losses in the quarter.

Some were minor: soybeans declined 0.36%; the U.S. Dollar Index, 0.61%; platinum, 0.98%; West Texas Intermediate crude, 2.16%.

WTI crude settled at $58.20 per barrel on June 28 after a 9.07% June surge.

Copper fell 6.06%; cotton, 17.86%; natural gas, 18.70%.17,18

"The **great thing** in this world is not so much **where we are**, but in what direction **we are moving**."

- Oliver Wendell Holmes, Jr.

EVALUATING THE HOUSING MARKET

REAL ESTATE

HOME GROWN HOUSING MARKET

Home loans grew cheaper in Q2, and home buying picked up as the quarter drew to a close. The National Association of Realtors noted a 2.5% increase for existing home sales in May; although, the annualized sales pace was still 1.1% beneath year-ago levels.

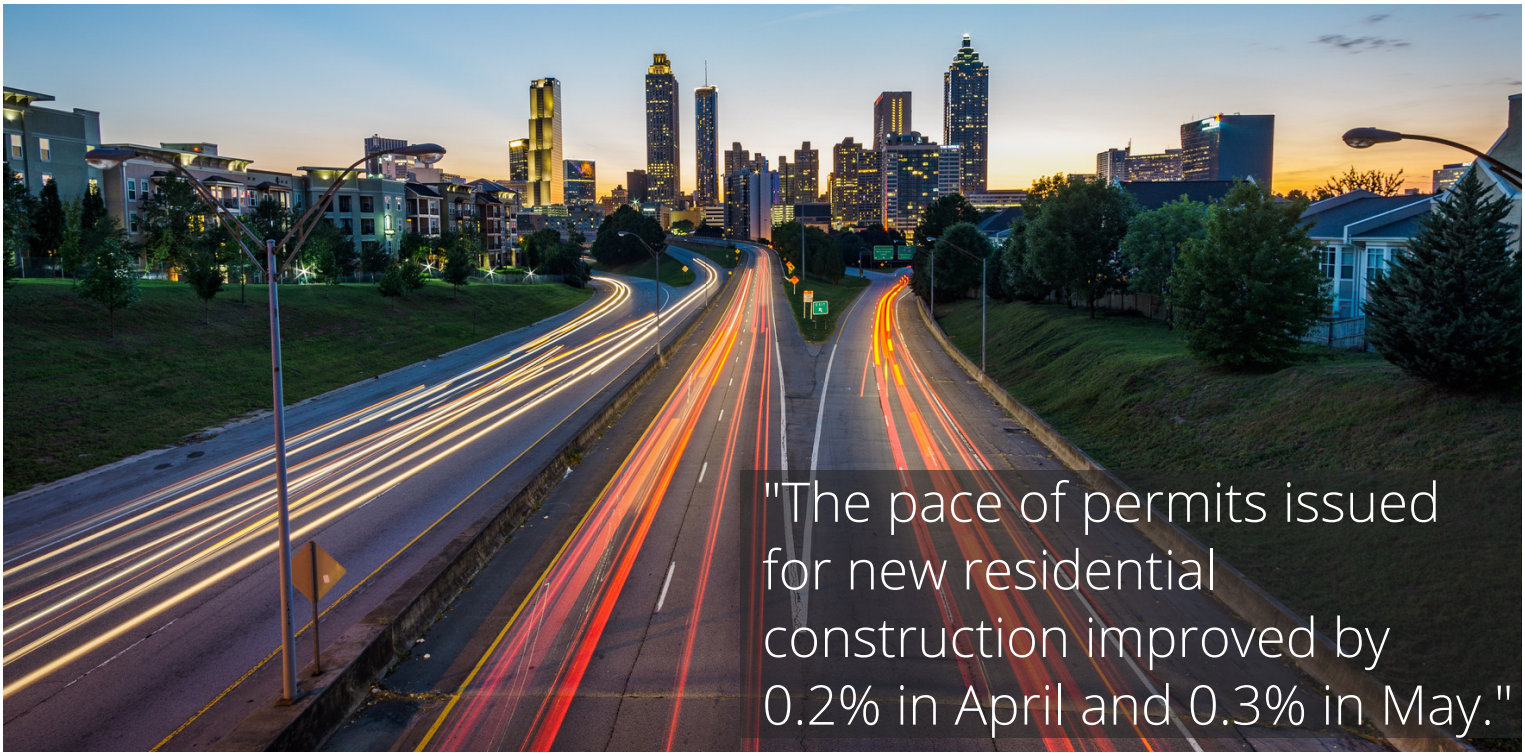
May was the fifteenth straight month showing a year-over-year decline. (April had seen a retreat of 0.4%.)

New home sales, which make up only about 10% of the U.S. residential real estate market, were down 3.7% in April and another 7.8% in May.

The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index, a lagging indicator, showed a 2.5% yearly gain as of April.

EVALUATING THE HOUSING MARKET

REAL ESTATE



Not that long ago (November), the average interest rate for a 30-year, fixed-rate mortgage was near 5%. Contrast that with where it was as the second quarter ended: 3.73%, according to mortgage reseller Freddie Mac's June 27 Primary Mortgage Market Survey.

(Note: 30-year and 15-year fixed-rate mortgages are conventional home loans generally featuring a limit of $484,350 ($726,525 in high-cost areas) that meet the lending requirements of Fannie Mae and Freddie Mac, but they are not mortgages guaranteed or insured by any government agency. Private mortgage insurance, or PMI, is required for any conventional loan with less than a 20% down payment.)

Back on March 28, Freddie Mac calculated the average interest rate on a 30-year FRM at 4.06%. As for 15-year, fixed-rate mortgages, their average interest rate went from 3.57% to 3.16% between the March 28 and June 27 surveys.

The Census Bureau said that housing starts surged 6.8% in April, then retreated 0.9% a month later. The pace of permits issued for new residential construction improved by 0.2% in April and 0.3% in May.

CRUNCHING THE NUMBERS

LOOKING BACK, LOOKING FORWARD

STOCK INDEXES

Time for a look at stock index performance. The S&P 500 gained 3.93% in April, dropped 6.58% in May, and climbed 6.89% in June. It hit a new, all-time peak in intraday trading on June 21: 2,964.03. The benchmark closed the quarter at 2,941.76.

The Dow Jones Industrial Average settled at 26,599.96 on the last trading day of the quarter; the Nasdaq Composite, at 8,006.24. Early in June, the yield on the 10-year Treasury went under 2%, a development that occurred multiple times in that month.

All in all, it was quite a quarter, with stocks getting as much of a lift from Federal Reserve policy moves and White House tweets as from earnings.

As Q3 starts, traders are wondering if a rate cut and a U.S.-China trade deal are in store for the summer; there is also some ambiguity about the economy's momentum. Companies are expected to start reporting second-quarter earnings in mid-July.

MARKET INDEX	Y-T-D CHANGE	Q2 CHANGE	Q1 CHANGE
DJIA	+14.03	+2.59	+12.43
NASDAQ	+20.66	+3.58	+17.39
S&P 500	+17.35	+3.79	+13.07

BOND YIELD	6/28 RATE	1 MONTH AGO	1 YEAR AGO
10 YR TIPS	2.00	2.14	2.84

Chart data from tradingview.com, barchart.com, treasur.gov (6/28/19). Indices are unmanaged, do not incur fees or expenses and cannot be invested into directly. These returns do not include dividends. 10-year TIPS yield = projected return at maturity given expected inflation

INVESTING IN YOUR VACATION

WHY DO MOST IGNORE THIS IMPORTANT INVESTMENT?

Why do so many of us not use our vacation days? Salespeople talk about "leaving money on the table." Well, employees leave vacation on the table. And the cost to us is significant.

In fact, Americans leave 429 million vacation hours on this proverbial table, according to a report from Forbes. And USA Today reports that, according to their study, over 30% of employees do not use all of their vacation days.

When we discuss investing, we talk about putting money aside in order to make a profit. We discuss putting money into stocks, bonds, mutual funds, and so forth.

People also discuss investing in your career, like investing in an education or in a certification. Maybe we should talk about another investment that could pay dividends in your career, which is, of course, the place where you make your money.

Reasons Why People Skip Vacations

Why do employees avoid vacation? There are several reasons people give for missing out on vacation days:

- **"I'm afraid that I'll be fired."**
This is the idea that your boss expects constant work and looks down on those "snivelers" who dare to take a break.

- **"A hard worker should keep his nose to the grindstone and perform."**
This is related to the other reasons, and it also involves some allegiance to the idea that hard work is the key, over-arching purpose of life.

- **"I don't want my colleague to impress the boss more while I'm away."**
People worry about not getting that promotion if they take time away from the office. These reasons are largely self-imposed.

As one executive put it, according to Forbes, "We seem to be wired to put the pedal to the metal, but there are also undeniable benefits to tapping the breaks." Using your vacation time, and using it wisely, helps you to become a better employee, which can only help your company.

STUDY RESULTS

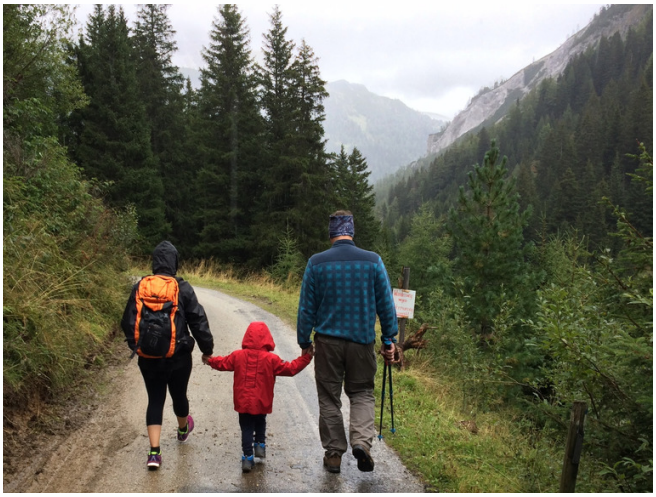
Is investing in vacation a good idea, or just hokey, happy talk?

Research studies support the idea of taking your vacations. A University of Pittsburgh study found that leisure activities, including vacations, contributed to less depression and more positive emotions, along with lower blood pressure and smaller waistlines.

These results are not surprising, since vacation reduces stress. As reported elsewhere, 80% of workers feel stressed on the job, and 70% of doctor visits are due to stress-related conditions.

According to Forbes, not using vacation time is bad for business. Most managers recognize the benefits of taking time off from work because their employees will be more productive, have better workplace morale, and are more likely to stay.

Importantly, the health benefits of vacation result in employees missing fewer days for illness and less time for medical appointments.



There are, of course, personal benefits to going on vacation or taking a “staycation,” where you stay at home during your time off.

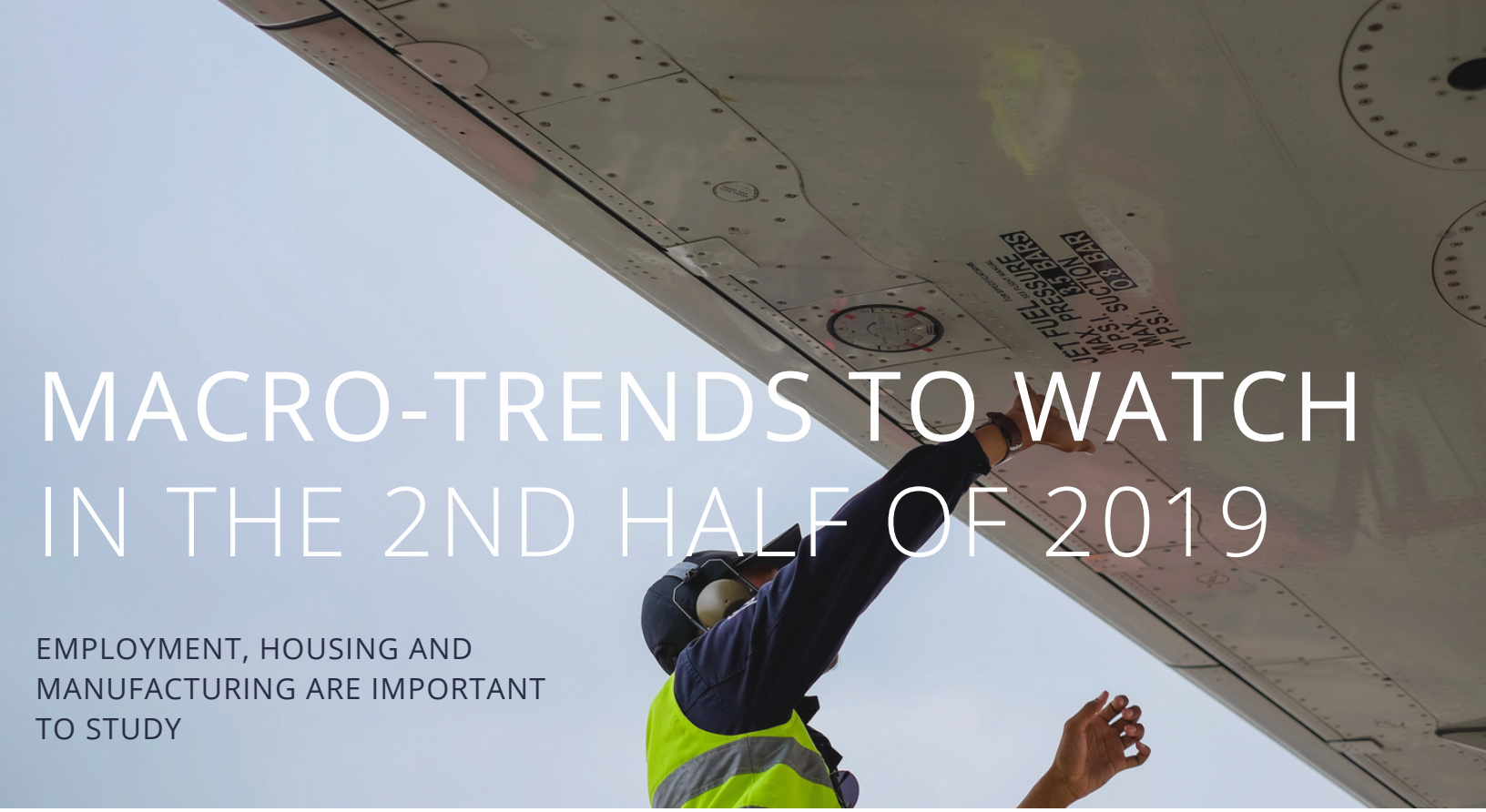
You can enjoy your life more and become closer to your partner, your kids, and your friends. You become physically healthier, too. However, taking time off can provide substantial benefits for you in your job or career.

As one executive put it, according to Forbes, “We seem to be wired to put the pedal to the metal, but there are also undeniable benefits to tapping the breaks.”

Using your vacation time, and using it wisely, helps you to become a better employee, which can only help your company. And most managers understand this.

Being a better employee will result, naturally, in a higher salary or a better job. Investing in vacation, therefore, is both an investment in your own well-being and in your career and salary.

Remember to invest in your vacation, just as you invest in your retirement, your education, or your house.



MACRO-TRENDS TO WATCH IN THE 2ND HALF OF 2019

EMPLOYMENT, HOUSING AND MANUFACTURING ARE IMPORTANT TO STUDY

We surpassed the 10-year mark of economic recovery, which started in 2009. The average expansion since World War II, according to the National Bureau of Economic Research, is just under five years.

Whether the current one continues or not might come down to three important macro-trends: employment, housing and manufacturing. The government released gross domestic product numbers for the first quarter of 2019 from 2.2% to 3.2%.

This has caused some to reevaluate growth, especially given the current global economic climate (think Brexit, China, etc.).

Employment

First, it appears that the unemployment number is going to remain at historically low levels, although the number could vary widely from month-to-month. Job postings have recently been at record highs, but an issue is the lack of the required job skills for these jobs.

With the retirement of baby boomers, we can expect that the labor participation rate (those working plus those looking for work), which has been on the downswing since the recession, will eventually increase. While this seems to be a positive, a lot of intellectual knowledge will be lost, along with the required skills needed, to replace the retiring boomers.

This will likely force businesses to train their own workers, and not leave the task to schools. A tighter labor market could also lead to some wage inflation, as those with the skills will be in very high demand. Given the growth in jobs, it is hard to imagine a recession any time soon.

Housing

Next, housing appears to be continuing its rebound, with acceleration for both existing and newly built homes, although expectations are for growth to slow. And the rebound appears to be inconsistent from month to month.

There is also a bit of a pull and a push as a result of slowly rising interest rates and a lowering of some borrowing standards.

Nonetheless, many first-time home buyers have repaired their balance sheets by accumulating enough money to make a down payment on a home, albeit a relatively modest one.

In many places around the country, the inventory of existing homes for sale is very limited as a result of the high demand.

Manufacturing

Lastly, manufacturing will have a significant impact on the GDP number for the year.

The chronic loss of American factory jobs to lower-cost nations – millions of them went away over the past two decades – appears to have reversed itself – for now.

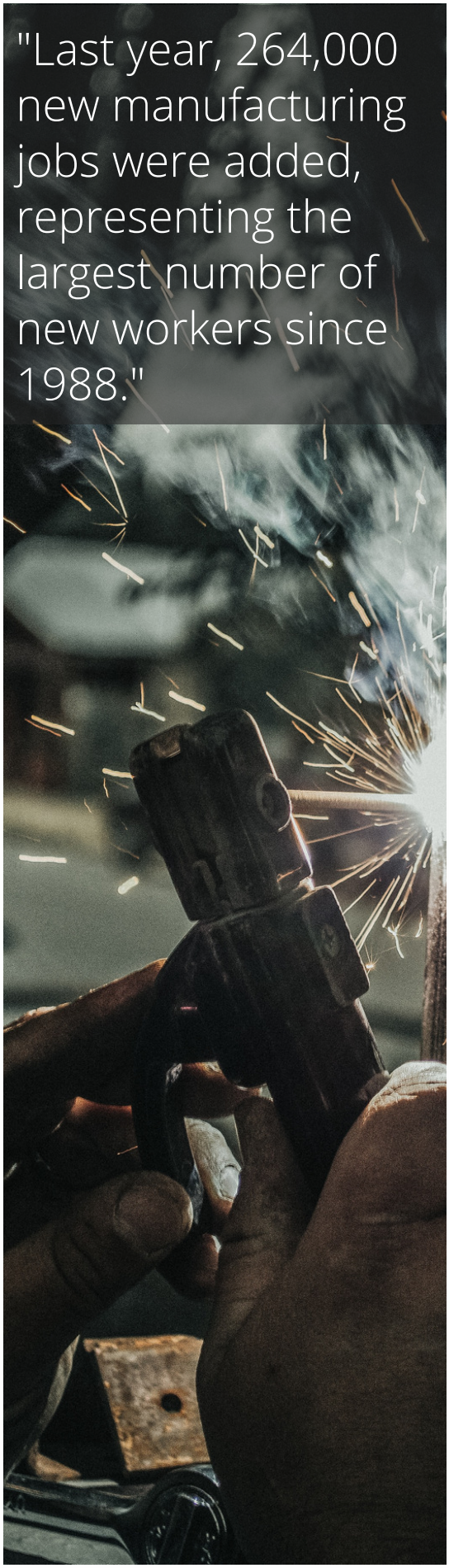
Last year, 264,000 new manufacturing jobs were added, representing the highest number of new workers since 1988.

As a percent of the total workforce, manufacturing rose for the first time since 1984.

Earnings Drive Stock Prices

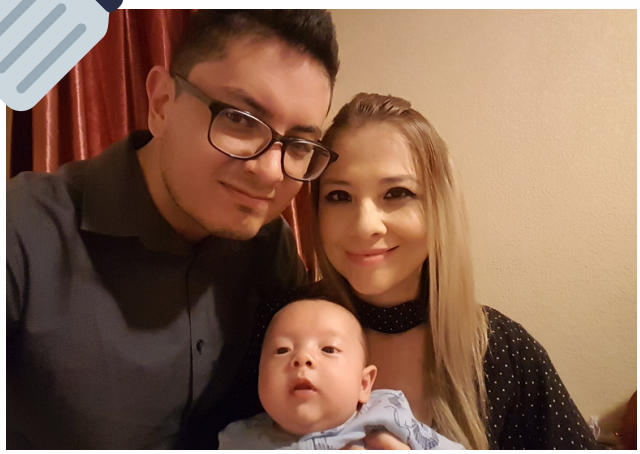
With all of that said, it will be up to companies to increase both their top and bottom lines to produce the earnings required to drive the equity markets forward at reasonable valuation levels.

But investors should also remain aware of the macro-trend lines when it comes to employment, housing and manufacturing.



HIGHLIGHTS FROM OUR ANSON EMPLOYEES

INSIDE THE OFFICE

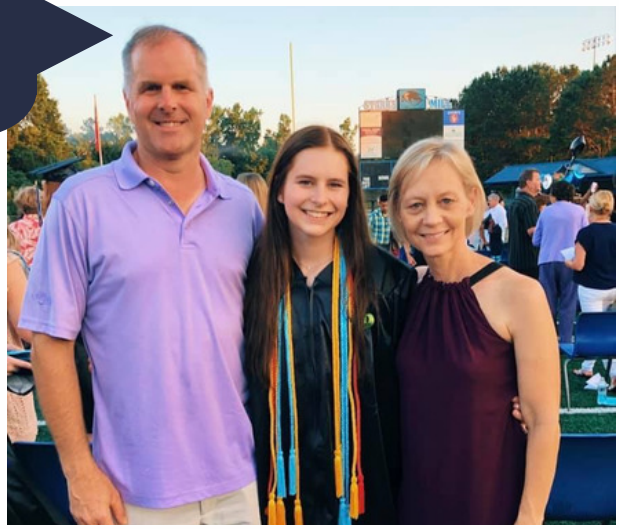


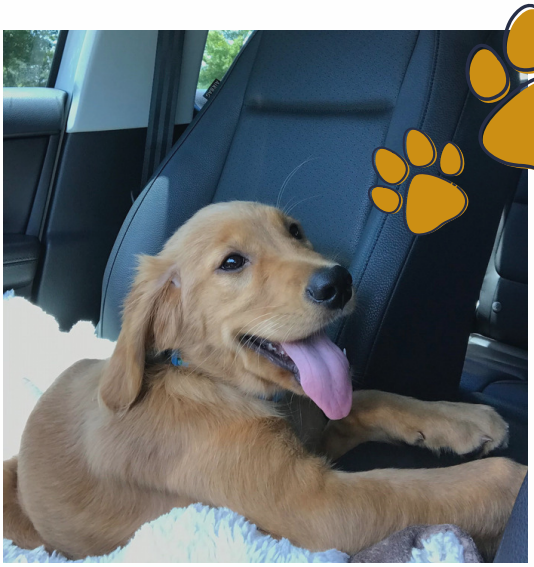
NEW BABY ON THE BLOCK

Say hello to the newest member of the Delgado family, baby Oliver! Saúl, our IT specialist at Anson Analytics, and his wife, Monica, welcomed their little boy to the world on April 27th.

A BRIGHT FUTURE AHEAD

Kristin, our office manager, and her husband, Dan, were proud to see their youngest daughter walk across the Starr's Mill High School stage this past May. Emily will be attending Georgia Southern University in Statesboro this upcoming fall.





ANOTHER DAY, ANOTHER OFFICE DOG

Lily the golden retriever puppy has joined the #OfficeDog team. Although she's still learning the basics of office etiquette, Lily has quickly realized how to give a firm handshake in exchange for a treat.

KNOW SOMEONE WHO COULD USE INFORMATION LIKE THIS?

Shoot us an email at info@ansonanalytics.com with their contact information. We'll mail them a copy too!

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