



Weekly Market Review

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The Week Ending August 11, 2017

It took the threat of the U.S. and North Korea going to war to finally break the stock market's impressive win streak. Day after day, week after week the market was setting new highs. That run finally came to an abrupt halt last week with U.S. and International indices down from -1% to -3% for the week. Disappointing earnings news also weighed on the market with Macy's and Disney reporting weak results. Macy's earnings miss is only the latest in a very tough stretch for retailers. Recent headlines such as, "The Sad, Slow Death of America's Retail Workforce," "The Death of Retail: The Next Big Short?" and "The Great Retail Apocalypse of 2017" are predicting a secular change in how people shop. Long-standing stable companies such as J.C. Penney, RadioShack, Macy's, and Sears have each announced more than 100 store closures. Credit Suisse is estimating that as many as 8,640 stores could close this year. Warren Buffett and Berkshire Hathaway are steering clear of retailers. Buffet has commented, "We see this retail weakness, which is occurring despite a relatively healthy economy, as part of a permanent evolution in how and where Americans spend their money." He goes on to say, "We expect the paradigm shift taking place to dramatically alter the retail landscape, with potentially significant implications for real estate investors." On that note, the DJ US Select REIT, which tracks the performance of publicly traded real estate investment trusts, was down over -2% for the week and is down almost -6% for the past year.

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Warren Buffett, Berkshire Hathaway

As investors sold equities last week, they bought bonds pushing bond indices higher. Also boosting bond prices was another weak month of inflation data. The Consumer Price Index, which measures inflation, posted the fifth straight month of below forecast figures. The Fed sees low inflation as a temporary situation. The market is seeing low inflation as a factor that will hinder the Fed's ability to raise rates, leading to a lower-for-longer interest rate environment. The Fed Funds futures market is pricing in a 40% probability that we will see another rate hike in 2017.



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