Weekly Market Review

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The Week Ending July 28, 2018

The U.S. economy surged during the second quarter with GDP growing at a 4.1% rate which is the highest quarter in four years and the fourth-best quarter since the expansion began in 2009. This is a significant increase compared to the moderate 2.2% rate for the first quarter. Consumer spending, which represents about 70% of GDP, was particularly strong. Increased business investment, along with government spending, helped propel growth as well. While 4.1% growth is an impressive quarterly number, economists expect growth to moderate in the second half of the year with the final 2018 GDP growth to be around 3.0%.

We're well underway into earnings season as now more than half of the S&P 500 companies have reported second-quarter results. So far, earnings are up 22.6% over the second quarter of 2017 putting us on pace for the second quarter in a row of 20%+ earnings growth. The Energy sector is the largest contributor with 123.0% growth. This is mainly due to corporate tax cuts and the fact that a barrel of oil was trading around $50 in the second quarter of 2017 compared to about $70 in the second quarter of 2018. The other strong sector results are coming from Materials, Financials, and Technology with 36.4%, 24.9%, and 23.9% respectively.

We experienced some relief in the trade-war rhetoric last week with President Trump and the EU President, Jean-Claude Juncker meeting on Wednesday at the White House with an unexpected positive outcome. They've agreed to a framework to continue negotiating the elimination of tariffs and subsidies surrounding non-auto industrial goods without imposing new tariffs while talks are ongoing. This ease can, of course, and disappear in the blink of an eye (or a 280-character tweet). However, at least for now, the mood is cautiously optimistic.

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