Weekly Market Review

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The Week Ending August 18, 2018

Equity markets ended the week in positive territory, but it was a bumpy ride to get there. Fears surrounding the Turkish currency crisis continue to keep investors on guard. The Turkish lira has fallen over 73% year-to-date causing the European Central Bank and regulators to worry about European lenders exposure to Turkish debt. Much of Turkey's debt is denominated in U.S. Dollars and Euros which means they need much more lira to services as the currency continues to slide.

The United Kingdom and the European Union continue to struggle to come to an agreement that will outline relations post-Brexit. Liam Fox, the United Kingdom's trade minister, said last week that there is a 60/40 chance of a "no-deal Brexit." Currency markets reacted by pushing the pound lower compared to the USD. So between Turkish debt exposure worries and Brexit uncertainty, the Euro is now trading at its lowest level to the USD in over a year at 1.1450.

The United States imposed tariffs on an additional $16 billion of Chinese industrial goods last week which China quickly matched. $50 billion of Chinese goods are now being taxed at a rate of 25% to import into the U.S. While domestic equities have experienced a lot of volatility related to trade uncertainty, price levels have held up so far for the year. Chinese equities, however, have fared much worse. The Shanghai SE Composite Index is down over -18% year-to-date. The MSCI Emerging Markets Index, which Chinese companies make up about 30% of, is down over -10% year-to-date.

While there are plenty of storylines worrying investors, U.S. companies are posting 20% plus earnings growth for the first two quarters this year. GDP growth for the second quarter is being estimated to come in close to 4% which is twice the rate of the first quarter. Much of earnings and economic growth is being fueled through the personal and corporate tax cuts. The question will be how persistent growth is into next year and beyond.

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