



# Weekly Highlights

## July 31, 2015

### Perspective from Larry V. Adam, U.S. Wealth Management CIO and Chief Investment Strategist

#### Summer Doldrums Setting In

While financial market volatility increased on the back of the Greek crisis and dramatic decline in the Chinese equity market (~32% from its recent peak), markets have stabilized. In fact, month-to-date through Thursday, the S&P 500 has rallied ~2.3% and the 10-year Treasury yield has fallen ~9 bps. The eye-popping stat was the intra-month "bear market" (fall of more than 20%) decline in oil.

Moving into August, markets should remain range bound in what is traditionally a seasonably slow volume and muted performance month. The Q2 2015 earnings season is in its latter stages with most of the systematically important bellwethers having already reported earnings. With earnings growth coming in better than expected (but still in slightly negative territory) and Q3 2015 earnings simultaneously being revised lower (very typical), there were no major surprises to earnings season.

The Fed's next FOMC (Federal Open Market Committee) meeting is not until September 17-18 and includes updated forecasts, "dots" (showing the dispersal of FOMC policy-makers' views) and Yellen's press conference. But until then, the Fed is likely to digest incoming data and remain "data dependent." However, if we are correct with our September first rate hike expectation, volatility should increase post Labor Day. A near-term calmness surrounding the Fed should contain the dollar and support a stabilization in commodity prices, which are currently oversold.



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#### Economic Data: Par for The Course

As we expected, one of the primary reasons the Fed was noncommittal with its timing of the first rate hike with Wednesday's FOMC post-meeting announcement was they did not have the Q2 2015 GDP and employment figures at their disposal. Yesterday's rebound in Q2 GDP (+2.3% QoQ) and upward revision to Q1 GDP (from -0.2% to 0.6% QoQ) is welcome news for the Fed and increases the likelihood of a September rate hike.

Given the importance of economic momentum, next week's economic releases are expected to support the current trajectory of the economy with little change. After recently surging to its highest pace since July 2005, motor vehicle sales (Monday) for July are expected to remain above a 17 million annualized pace (consensus 17.2 million).

The ISM manufacturing index (Monday) for July is expected to remain steady in expansionary territory at 53.5 (unchanged from last month). In particular, focus on the new orders and back orders subcomponents as they are better predictors of future economic activity.

The employment report for July will be released on Friday. Our economist forecasts that 235K jobs were added in July and that the unemployment rate should remain unchanged at 5.3%. The estimated number of jobs for July is consistent with the average monthly pace of ~208K jobs created YTD. Given the Fed's emphasis on employment conditions (both job creation and wages), this is one of two reports the Fed will have before its next meeting.

