

The Week In Review



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Week Ending: Friday, July 21, 2017

Recap & Commentary

Returns for the week were relatively modest as investors focused primarily on second quarter earnings. The S&P 500 set a new record high mid-week before pulling back slightly. Fixed income returns were boosted by a further decline in interest rates which have seen the 10-Year Treasury yield fall -0.15% over the past two weeks.

Through Friday ~20% of companies within the S&P 500 had reported second quarter earnings. According to FactSet, 73% of companies have beaten their consensus earnings expectations. In addition, the average "beat" has been 7.8%. Both of those figures are above the 5-year average. On a top-line basis, 77% of companies that have reported thus far have beaten their consensus sales expectations. Second quarter earnings are currently on track to record year-over-year growth of 7.2%, up from the projected 6.8% at the outset of earnings season.

Similar to interest rates, the dollar has defied expectations from the outset of the year for further strengthening. YTD the dollar is down -8.5% against a trade-weighted basket of currencies and down nearly -10% vs. the Euro. While politicians often talk about the desire for a strong dollar, a falling dollar can be good as it makes U.S. goods and services sold abroad more competitive. The decline has been attributed by some to the recent disorder in Washington. However, a larger driver has been downwardly revised expectations for an additional Fed rate hike this year, due to slowing inflation, coupled with the growing belief that the European Central Bank (ECB) is beginning to prepare for its own "tapering" of monetary policy later this year.

Economic Bullet Points

Regional manufacturing data remains strong, with readings from the Empire State Manufacturing Survey and the Philly Fed Business Outlook falling only slightly from their high June figures. The Empire State Mfg. Survey fell to 9.8, below 15.0 consensus and last month's unsustainably high 19.8. This report has been very strong thus far in 2017, well above actual strength in the factory sector. The Philly Fed Business Outlook though slightly below consensus expectations, is signaling solid strength. Behind the high headline reading, however, details are the flattest they've been since late last year.

Data out of the housing sector was solid in June, Housing Starts jumped 8.3% in the month following three months of declines. Permits for future construction increased 7.4%, a positive signal second half building. The surge in housing starts reflects high confidence levels and strong demand. Tight inventory levels of existing homes continues to incentivize new construction. The Housing Market Index fell to 64, below consensus expectations for 68, the lowest reading since last November. Nonetheless, the optimism amongst home builders remains very high.

Leading Indicators had its largest monthly increase since December 2014, surging 0.6%, a promising sign for economic growth in the second half. Key positives include the largest contribution from building permits since November 2015, and interest rate spreads indicating low short-term rates. Jobless Claims fell a sharp 15K for the week to match the second lowest reading of the expansion, a continuation of trends indicative of a tight labor market. In general, the outlook remains quite positive for the second half, data supportive of second quarter GDP growth an improvement from the first.

Of Note

Through the close of trading last Friday, the S&P 500 has had just four trading days (out of 139 trading days YTD) that have produced at least a 1% gain or 1% loss. By the same date in 2016, there were already 39 trading days with at least a 1% up/down movement or nearly 10 times as many volatile trading days. (source: BTN Research, MFS).

Market Indices Week of 7/21

S&P 500	0.5%
Russell 2000	0.5%
MSCI EAFE	0.5%
MSCI EM	1.3%
Commodities	0.4%
Barclay's Agg.	0.6%
US Dollar Index	-1.4%
10-Yr Yield	2.24%
Oil (\$/bl)	\$46
Gold (\$/oz)	\$1,249

The Week Ahead

- Existing Home Sales
- Case-Shiller HPI
- New Home Sales
- Durable Goods Orders
- Int'l Trade in Goods
- Jobless Claims
- Consumer Confidence
- Consumer Sentiment
- GDP

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