Encouraged by Healthy Retail Sales and a Positive Start to Earnings Season.

Stocks touched all-time highs Monday and we remain optimistic that the global economic slowdown is troughing while the U.S. economy remains on an expansionary path. U.S. retail sales data last week suggests a healthy, optimistic consumer continues to support economic growth. Meanwhile, China’s recent economic releases suggest solid momentum heading into the third quarter – this should ultimately lead to improving global manufacturing conditions. This should support stocks and other risk assets as we move through the back half of 2019.

A Healthy Consumer Continues to Support the Economy: Retail sales rose for the fourth straight month in June, resulting in the longest winning streak since early 2018, indicating that consumer spending remains strong. Most major retail categories gained, led by online sales and restaurants. Higher retail sales is important because it is a major determinant of economic growth.

Meanwhile, industrial production was flat in June, with lower utility output due to milder weather. However, manufacturing was up the most in six months while mining also saw gains. This reading is consistent with slower, but positive, economic growth. While the Conference Board’s Leading Economic Index (LEI) declined in June, it also remains consistent with positive economic growth.

Initial claims for unemployment insurance increased to 216,000, while the less volatile four-week average fell to 218,750. These readings are still extremely low by historical standards (hovering around the lowest level since 1969), reflecting tight labor market conditions. We continue to pay close attention to jobless claims, which has historically been an accurate and timely indicator of overall economic conditions—the current message continues to be positive.

The strong labor market continues to boost consumer confidence. The Bloomberg Consumer Comfort Index reached its highest level since October 2000 last week. This bodes well for consumer spending growth, as evidenced by the retail sales reading discussed above.

Indicators Suggest Improvement in Chinese Growth: China has been the major driver of global manufacturing and exports throughout this economic expansion, and we pay close attention to their economic indicators. China has been applying significant economic stimulus to its economy in the form of tax cuts, lower interest rates, and increased government spending. We are encouraged that this stimulus seems to be taking hold. The recently released industrial production, retail sales, and fixed asset investment data all suggest solid momentum heading into the third quarter.

Encouraging Start to Earnings Season: We are in the thick of earnings season with 25% of the S&P 500’s market cap having reported second quarter results. Encouragingly, companies are exceeding analysts’ estimates (beating) at a better pace than the last three-year average. Second quarter expectations are for revenues, earnings, and earnings-per-share (EPS) growth of 1.5%, -1.7%, and +0.6%, respectively. EPS is on pace for +2.1%, assuming a typical beat rate for the remainder of the season. Although aggregate S&P 500 EPS is expected to rise by 0.6%, the median company is expected to grow +3.7%. Earnings growth is the critical determinant of higher stock prices and it’s encouraging to see results coming in better than expected.

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