Weekly Economic Recap & Comment
Week Ended May 24, 2019

In a very light week for economic news, we focused on a key report that showed further weakness in the U.S. housing market. The National Association of Realtors said ***April existing home sales*** declined by a seasonally-adjusted 0.4%, after a 4.9% drop in March. That left the annualized sales rate at just 5.19 million units. Home re-sales have now fallen in five of the last six months, and as a result, re-sales in April were down 4.4% from the same month one year earlier. The report also said the median price of an existing home came in at $267,300 last month, for a gain of 3.6% year-over-year, but that increase was one of the weakest of the last few years. We continue to think overall economic activity is recovering from its soft patch in mid-winter, but the existing home sales report is a reminder that some sectors are still facing headwinds, and inflation pressures are still weakening. Continued overall growth should help keep domestic corporate profits on an uptrend for now, so we are maintaining a significant exposure to equities for the time being (in our strategies that include them). The problem is that the Federal Reserve's recent pause on interest-rate hikes may have come too late. With the economy much less dynamic than in decades past, there's a chance that the inflation and rate hikes through 2018 may have already done their damage, and growth could now slow further. Besides, a continued weakening in foreign demand could hurt both exporters and those U.S. firms that produce and sell abroad. There are also yellow flags in the government policy environment, such as the administration's risky posturing in national security and international trade disputes. Because of those threats, this week we implemented another modest reduction in our exposure to stocks and other riskier assets, just as we did in February and last August. Those earlier adjustments helped cushion our portfolios from the recent market turbulence, and we expect our latest moves to help even more. Because of these adjustments, our portfolios are now substantially "risk off," even if we think our remaining exposure to stocks is still significant enough to take reasonable advantage of any rebound in the market. At some point in the coming months, we anticipate that we may need to cut risk again in more dramatic fashion, but we don't think we're at that point quite yet.

The market for newly-built houses had recently been performing better than the market for existing homes, but that wasn't the case last month. Data from the U.S. Census Bureau showed ***April new home sales*** fell by a seasonally-adjusted 6.9% to an annualized rate of 692,000. The decline erased most of the market's revised increase of 8.1% in March. Sales of newly-built homes last month were still up 7.0% year-over-year, but that was significantly weaker than their annual gain of 10.6% in March. It probably wouldn't be correct to ascribe all of last month's weakness to cost, but the report did suggest that pricing may have been part of the issue. According to the report, the median price of a new home jumped all the way to $342,200 in April, for a rise of 8.8% on the year.

A key report on manufacturing also showed weakness. The data showed ***April durable goods orders*** unexpectedly declined by a seasonally-adjusted 2.1%, erasing their revised increase of 1.7% in March and almost matching their 2.6% fall in February. Much of the weakness in April stemmed from the transportation category, where just a few airliner orders can have a big impact. ***April durable goods orders excluding transportation*** were merely flat, after two straight months of declines. On the other hand, the report included some disappointing data in a category that serves as a proxy for corporate investment. ***April nondefense capital goods orders excluding aircraft*** fell 0.9%, after two straight months of 0.3% increases. Compared with April 2018, overall durable goods orders last month were down 0.1%. Durable orders ex-transport looked a bit better, as they were up 1.4% on the year, and nondefense capital goods orders ex-aircraft were up 2.5%. However, those increases were just a fraction of the annual gains seen in early 2018. We think the data reflect a clear deterioration in businesses' confidence and willingness to invest in the face of problems like weaker growth overseas and the threat of a worsening U.S.-China trade war.

Fortunately, the week's data on the labor market was more positive. In data touching on the demand for labor, ***initial jobless claims in the week ended May 18*** fell by a seasonally-adjusted 1,000, marking the third straight weekly decline and leaving claims at a low level of just 211,000. The four-week moving average of claims, which helps strip out some of the volatility in the data, declined to 220,250. Initial applications for unemployment benefits remain near their lowest levels in decades, suggesting layoffs are still minimal.

Finally, in data on the nation's energy industry, ***commercial crude oil inventories in the week ended May 18*** rose by 4.740 million barrels to a nearly 22-month high of 476.775 million barrels. As a result, stockpiles remained bloated at 7.8% above their five-year moving average (an industry benchmark that suggests supply and demand are in balance). The report also said ***domestic crude oil production in the week ended May 18*** rebounded to 12.2 million barrels per day, almost matching the all-time record high reached last month. Because of continually rising demand and reduced exports from some big producers (such as Iran and Venezuela), global oil prices had been trending upward until quite recently. With this week's data, investors seemed to come around to our thinking that historically high inventories and strong U.S. output could eventually lead to excess supplies. Oil prices therefore fell sharply this week, and we are concerned that they could now keep falling. We therefore continue to avoid commodity funds in most of our strategies at present.

Patrick Fearon, CFA
Lead Portfolio Manager

Upcoming U.S. Data

Date	ET	Release	For	Consensus Forecast	Prior
28-May	9:00	FHFA Housing Price Index	Mar	0.30%	0.30%
28-May	9:00	S&P Case-Shiller Home Price Index	Mar	2.90%	3.00%
28-May	10:00	Consumer Confidence	May	130	129.2
29-May	7:00	MBA Mortgage Index	25-May	NA	2.40%
30-May	8:30	Adv. Intl. Trade in Goods	Apr	-$72.0B	-$71.4B
30-May	8:30	Adv. Retail Inventories	Apr	NA	-0.30%
30-May	8:30	Adv. Wholesale Inventories	Apr	0.10%	0.00%
30-May	8:30	Initial Claims	25-May	217K	211K
30-May	8:30	Continuing Claims	18-May	NA	1676K
30-May	8:30	GDP - Second Estimate	Q1	3.10%	3.20%
30-May	8:30	GDP Deflator - Second Estimate	Q1	0.90%	0.90%
30-May	10:00	Pending Home Sales	Apr	1.00%	3.80%
30-May	10:30	EIA Crude Oil Inventories	25-May	NA	+4.7M
30-May	11:00	EIA Natural Gas Inventories	25-May	NA	+100 bcf
31-May	8:30	Personal Income	Apr	0.30%	0.10%
31-May	8:30	Personal Spending	Apr	0.20%	0.90%
31-May	8:30	PCE Price Index	Apr	0.30%	0.20%
31-May	8:30	Core PCE Price Index	Apr	0.20%	0.00%
31-May	10:00	Univ. of Michigan Consumer Sentiment - Final	May	101.5	97.2

Source: Briefing.com