Bell Bank
Wealth Management

EQUITY & FIXED INCOME OUTLOOK JULY 2018

Federal Reserve Monetary Policy

The Federal funds rate is now 2 percent as a result of the June 13 meeting. The next prospect for a Fed funds rate increase is expected to be September 26, since a rate change is not anticipated at the August 1 meeting.

Inflation

The most recent year-over-year inflation rate is 2.8 percent. That is 0.1 percent higher than we expected in the June Economic Outlook. The next release is July 12, where we expect to see another increase as oil prices have moved up. This could be the first time in a long time where the inflation rate posts a 3 percent handle.

Economic Activity

Synchronized global growth appears to be losing a bit of its coordination, but the U.S. is expected to remain on a growth path of around 2.5 percent for the full year. The areas around the globe where we expect to see slower economic growth than last year include Europe, the Asia/Pacific region and the BRIC countries (Brazil, Russia, India and China).

Supply disruptions and inventory drawdowns in the oil market are putting upward pressure on energy costs. We expect this to migrate to consumers' pocket books and influence rising inflation rates. It is too early to tell if higher oil prices will be sustained in the energy market.

Consumer spending cooled a bit in May while personal savings increased. The economy is still expected to have better-than-average second-quarter growth of around 4 percent annualized.

Don't let your guard down. The economy remains in an extended period of growth that is well beyond the length of historical average growth patterns.

Fixed Income

Interest rate patterns continue to confound prognosticators. Rising inflation, rising employment and rising wages were all expected to put upward pressure on long-term interest rates. Instead, the yield on the 10-year U.S. Treasury bond has spent only 11 days at or above 3 percent this year. The rate currently sits at 2.86 percent. It should also be noted that the 5-year U.S. Treasury bond rate is 2.73 percent and the 2-year U.S. Treasury bond rate is 2.53 percent, showing a flattening yield-curve tendency with only limited yield differences between bonds with very different maturity structures.

Our sense is that a July inflation print with a 3 percent handle will get the attention of the bond market, resulting in a drift to higher longer-term interest rates. Rising interest rates erode the market value of bonds.

Stock Market

The S&P 500 market has been trading within the range of 2700 and 2800 for the last month without a lot of conviction to break out of that range one way or the other.

With little probability of a recession in sight, weakness in a breakout on the lower end of this range should be limited. The exception to this would be some sort of unexpected event that catches investment markets off guard, resulting in a wave of selling.

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