



The Lyttle Company LLC

NEWSLETTER

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Summary

- Economic News – Inflation remains below 2% and trade war is ongoing.
- Market Events – Equity market grew but trade war and future monetary policy may lead to lower bond yields even after a 50% decrease in the 10 -year treasury from last year.

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Economic News

The US Real GDP rose at an annual rate of 2.1% in the second quarter of 2019.

Inflation measured in the 12-month Consumer Price Index (CPI) percentage change was 1.8% in July 2019. The Personal Consumption Expenditure Price Index (PCE) change was 1.4% in June 2019. The PCE is now what the Fed prefers to better gauge inflation. The Cleveland Fed explained, “the CPI measures what households are buying and the PCE looks at what businesses are selling.” In other words, the CPI follows a general set basket of goods where the PCE allows the basket to change, as an overly expensive item gets substituted out for a cheaper alternative. Simplified, the CPI uses the Laspeyres formula while the PCE uses the Fisher Price formula. The Fed’s objective for inflation remains at 2 percent.

The Fed lowered the federal funds target rate 1/4 percent to a range of 2 to 2-1/4 percent.

President Trump initially imposed higher tariffs on \$200 billion Chinese imports to 25% from 10%. The Administration threatened to levy a September 1st tariff of 10% on remaining Chinese imports. The US dollar has been trending upward this year, but lost strength in May 2019 only to rebound in June. Oil prices are at \$56.64 a barrel. Up from 2016 lows but nowhere near 2014 highs of \$106.

Market Events

The S&P 500 closed down yesterday .5% lower from a year ago. The bond market faces an uphill battle to new investors as the 10-year treasury rate fell to 1.5%. This is down almost 50% from a year ago.

As President Trump pushes the Fed to lower interest rates, Fed Chairman Jerome Powell previously warned “Congress chose to insulate the Fed this way because it had seen the damage that often arises when policy bends to short-term political interests.” President Trump argued that lower rates will help insulate the market against trade war pressure.