

Moving the Peg

The Chinese government’s move to weaken its currency relative to the U.S. Dollar rattled global markets early last week. The Yuan/Dollar exchange rate passed through the 7 Yuan-to-the-Dollar level. This makes the Chinese currency weaker (see “Currency Pegging” explanation below) and aids the pricing of Chinese exports in the global markets.

The concerns over the impact of the sudden currency shift caused a rise in equity market volatility sending the [Volatility Index](#) to its highest level since the December 2018 market correction. The Volatility Index, or VIX, rises when there is fear or pessimism on the direction of the market based on the volatility priced into S&P 500 Index futures. The VIX eased later in the week as Yuan/Dollar exchange rates stabilized.

We are now headed into the tail end of second quarter earnings with 450 companies in the S&P 500 having reported quarter-to-date. Seventy-three percent of companies have reported earnings above expectations, 18% below expectations, and 8% in-line. The current [consensus expectations](#) for the S&P 500 Index earnings growth for the second quarter increased to +2.8% from +2.7% the week prior and versus expectations for a 0.4% decline at the start of the earnings reporting season. The “earnings recession” has yet to materialize. The expectation for revenue growth for the quarter increased week-to-week to +4.7% from +4.5%. Many of the companies in the S&P 500 Index that are still to report earnings are retailers which can provide good insight to the current health of the consumer.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-0.4%	16.4%	International Stocks (MSCI ex-US)	-1.1%	6.6%
Dow Jones Industrial Average	-0.6%	12.7%	Aggregate Bond Index	0.4%	5.7%
NASDAQ 100	-0.5%	20.8%	U.S. Dollar Index	-0.6%	0.9%
Russell 2000 (Small Cap Index)	-1.3%	12.2%	WTI Crude Oil	-2.1%	20.0%

Sources: S&P Global, Thomson Reuters

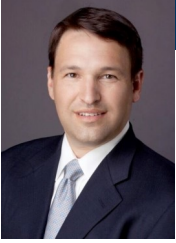
Dissecting Headlines: Currency Pegging

The exchange rate between major currencies around the world such as the U.S. Dollar, Euro, Japanese Yen and Swiss Franc are set by market supply and demand. Other currencies such as the Chinese Yuan are set through a fixed exchange rate, or peg, relative to one of the major currencies which in the case of China is the U.S. Dollar. The peg is set by the Chinese government and they can, as they did this week, lower the peg to devalue their currency relative to the U.S. Dollar.

The exchange rate for Yuan to the Dollar had been less than 7 Yuan to 1 Dollar for over a decade. This week, China moved the peg to over 7 Yuan/Dollar (this weakens the Yuan), as a defense in the trade war to keep Chinese exports price competitive globally. The move also makes imports into China more expensive for the Chinese. This can dissuade demand of global products by the Chinese. The Chinese government is also likely to spend its foreign exchange reserves (it holds currencies of other countries) to offset import inflation on vital commodities such as crude oil.

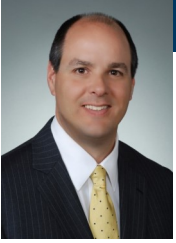
Currency has become the latest tool in a trade war between the world’s two largest economies.

The NovaPoint Capital Team



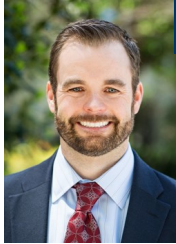
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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 and has also worked at Balentine & Co, Wright Investment Management, and Smith Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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