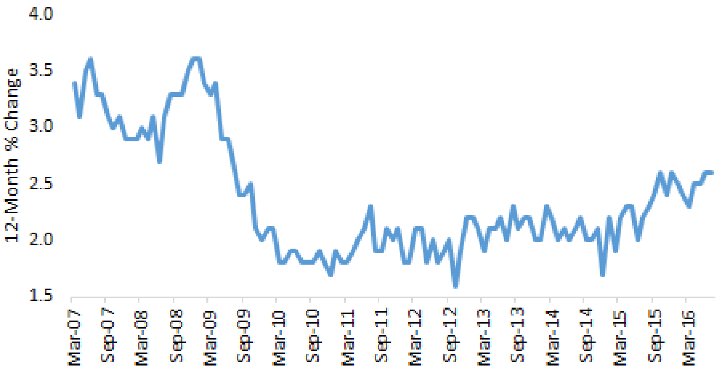
"TOUGHER THAN THE REST"

Kevin Flanagan – Head of Fixed Income Strategy
08/31/2016

With two-thirds of the third quarter just about in the books, investors are still left wondering about the state of the U.S. economy. While discussions regarding a tilt into recession territory have been tabled of late, it certainly appears that the predominant expectation is not to look for any visible rebound in economic activity during the second half of 2016 either. Certainly, the first six months of the year did not give anyone reason to be overly optimistic, as overall growth increased by roughly +1.0%. After a slow start to begin the year, real GDP was surprisingly soft in Q2, rising +1.1%, or about half the pace of growth that was expected among consensus forecasts. Fixed investment, inventories, net exports and government spending have all been wild cards recently, with all but net exports contributing to the disappointing performance in the April–June period. The sizable drop in the inventory component will more than likely not be repeated and could potentially serve as a positive force for Q3, in our view. The stalwart for economic activity and key to future growth prospects have been, and will continue to be, personal consumption expenditures (PCE). Indeed, the consumer was on full display in Q2, as household spending surged by +4.4%. This resulted in a net positive contribution of 2.9 percentage points (pp) to real GDP, as all the remaining components actually subtracted 1.8 pp.

Average Hourly Earnings



Source: Bureau of Labor Statistics, August 2016. Past performance is not indicative of future results.

Admittedly, it will be a tall task for the consumer to replicate the Q2 performance. So, what should investors expect to see from the personal spending side of the ledger going forward? The first litmus test, July retail sales, seemed to confirm the notion that the consumer may not be as strong a contributor to the economy to begin the second half of the year. However, as we have said before, it is usually prudent not to read too much into a single month's data. To be sure, there are many supporting influences that suggest the consumer should not be written off quite yet. Key wealth effect forces such as stock and home prices have remained supportive for the spending outlook. In addition, the Bloomberg U.S. Financial Conditions Index (which measures the overall level of stress in the U.S. financial markets as well as the availability and cost of credit) has continued to improve, rising appreciably from its 2016 and post-Brexit lows. Gasoline prices remain supportive, falling -4.7% in July, while food prices have been either flat or slightly negative for the last three months, according to data from the Bureau of Labor Statistics (BLS). Another important development to keep an eye on is the latest trend on the wage front. The July jobs report revealed that average hourly earnings (AHE) increased at an annual rate of +2.6%, maintaining the pace at the upper end of the recent range. The last time investors witnessed this type of sustained increase was 2009. In addition, the growth in AHE was widespread, with construction, manufacturing, wholesale trade, utilities, information, financial activities as well as leisure and hospitality all producing year-over-year gains in excess of the overall pace. **Conclusion** Based on the latest report from the University of Michigan's Surveys of Consumers, any household concerns regarding Brexit were relatively short-lived. However, the next headline-making event, the U.S. presidential election, is receiving increasing attention and carries the potential for near-term uncertainty. According to the report, "consumers are nearly equally split on whether either candidate would actually improve overall economic conditions,"[1] which is why investors should instead maintain their focus on upcoming wage trends to gauge future household spending plans. [1]Source: University of Michigan's Survey of Consumers preliminary results August 2016.

Important Risks Related to this Article

Fixed income investments are subject to interest rate risk; their value will normally decline as interest rates rise. In addition, when interest rates fall, income may decline. Fixed income investments are also subject to credit risk, the risk that the issuer of a bond will fail to pay interest and principal in a timely manner or that negative perceptions of the issuer's ability to make such payments will cause the price of that bond to decline.

For standardized performance and the most recent month-end performance click here NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our Economic & Market Outlook

View the online version of this article here.

IMPORTANT INFORMATION

U.S. investors only: Click here to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

DEFINITIONS

Gross domestic product (GDP) : The sum total of all goods and services produced across an economy.

Personal Consumption Expenditure (PCE) Price Index : measure of price changes in consumer goods and services in the U.S. economy.

Bloomberg U.S. Financial Conditions Index : tracks the overall level of financial stress in the U.S. money, bond, and equity markets to help assess the availability and cost of credit. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms.

Brexit : an abbreviation of “British exit” that mirrors the term Grexit. It refers to the possibility that Britain will withdraw from the European Unio.