US stocks managed to eke out another monthly gain in August, after recovering from a sharp one-day selloff on August 17th. For the month, the broad-based S&P 500 Index gained a paper-thin 0.05%, while the NASDAQ gained 1.27%, and the Dow gained 0.26%, after hitting an all-time high above 22,000 early in the month. Some of the weakness during the month was brought on by the terrorist attacks in Barcelona, more North Korean saber-rattling, and the possible economic dislocations caused by Hurricane Harvey. Offsetting these concerns were further strength in the economy (on Sept 1 the Department of Labor reported another healthy month of employment growth), as the growth rate for the US economy in the second quarter was revised upward to 3%, the best performance in several years. Corporate profits also grew strongly in the second quarter, with companies in the S&P 500 reporting year-over-year gains of 12.1%, and analysts forecasting more double-digit gains over the next year. The US housing market also continues to be strong, with prices rising throughout the country. Construction activity directly boosts GDP, and indirectly increases the wealth of homeowners, who are then more likely to spend on consumption, further boosting GDP growth.

Stocks were also supported by signs that the FOMC would continue its policy of easy money. Minutes of the July FOMC meeting, released in August, showed that the Federal Reserve was likely to limit its short-term interest rates hikes this year to one more ¼-point bump in December, with several FOMC members leaning toward no more increases in 2017. The minutes also suggested that the Fed will proceed very slowly with its plan to start reducing the size of its $4.5 trillion balance sheet, in order to avoid instability in the bond market.

The Fed is as puzzled and divided as the economics profession in coming to terms with continued low inflation in the US in the face of 4.4% unemployment. But regardless of the explanation, as long as inflation remains stubbornly below the Fed’s target of 2%, easy money and low interest rates will be the order of the day, and that is good news for stocks.

Continued low interest rates are bearish for the dollar, which continued its months-long slide in August. The broad trade-weighted dollar index is now at its low for the year. This decline will stimulate the US economy, as exporters find it easier to sell into foreign markets, while importers
will be paying higher prices. The strength in exports and weakness in imports will give the economy another short-term boost.

**World Markets and Economy:**

European blue-chip stocks dropped slightly in August, as measured by the EURO STOXX 50 Index. The decline was much sharper in London, where stocks are mired in a swamp of Brexit gloom and political uncertainty, as Prime Minister May’s government lost ground in recent elections. On the continent itself, however, signs of sustainable economic growth continued to appear, even though French and German stocks marked time for the month. French stocks are being held back by the falling popularity of Macron, whose proposed labor market reforms have energized the opposition of labor unions. German stocks may be held back by the continued strength of the euro, the flip side of the weakness of the US dollar. This euro strength comes from a pickup in growth in Europe, with forecasts of 2% or greater growth for the rest of 2017. Even more remarkably, *all* of the Eurozone economies are forecasted to grow this year, ranging from 4% growth in Ireland down to 1% growth in Greece. With lots of labor market slack in many European countries (French unemployment is still over 9%), and low inflation, the European Central Bank (ECB) is not likely to raise interest rates very quickly this year.

Tokyo stocks had a bad month, hit by the double whammy of political scandals at home, and rising tensions in Asia. In August, the North Koreans fired a missile that flew over Japanese airspace, which further destabilized the region. Prime Minister Abe may be forced to increase military spending and move Japan farther away from its long era of pacifism. Japanese stocks, however, are still up almost 16% over the past year, and are not far below the 20,000 level on the Nikkei.

**OUTLOOK:**

The US bull market has logged another month in its long run to historic highs, and the path of least resistance is still upward. The world’s major economies continue to grow, with inflation subdued, and interest rates low, in all major countries. Market history shows, however, that the months of September and October are often problematic for the bulls. Yet long-term investors, who ride out the inevitable “corrections,” have always been rewarded in the long run.