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Market Month: July 2016

The Markets (as of market close July 29, 2016)

Following an initial downturn largely in response to June's Brexit vote, equities rebounded during the month of July. The first full week of the month saw each of the indexes listed here improve over the prior week, led by the Nasdaq, which gained almost 2.0%. The Dow recouped just about all of the value lost right after the vote. Long-term bond yields, highlighted by 10-year Treasuries, continued to slide--falling 90 basis points from their year-end value. By the week ended July 15, money flowed from long-term bonds (10-year Treasuries yield increased by 18 basis points) into equities as the Dow posted a 2.0% weekly gain, while the Russell 2000 jumped almost 2.4%. Also helping boost stocks was a much-improved labor report, which saw the addition of almost 290,000 new jobs in June. As the month wore on, light trading slowed the growth of the indexes listed here with the exception of the Nasdaq, which ended the week of the 22nd about 1.5% ahead of its value from the prior week. As the month of July came to a close, each of the indexes listed here posted robust gains, led by the Nasdaq and the Russell 2000, each gaining about 6.0% over their June closing values.

Long-term bond yields fluctuated during the month, ultimately closing at essentially the same yield as June's closing return. The price of gold (COMEX) increased by month's end, selling at $1,357.90--about $33 over June's end-of-month price of $1,324.90.

Market/Index	2015 Close	Prior Month	As of 7/29	Month Change	YTD Change
DJIA	17425.03	17929.99	18432.24	2.80%	5.78%
Nasdaq	5007.41	4842.67	5162.13	6.60%	3.09%
S&P 500	2043.94	2098.86	2173.60	3.56%	6.34%
Russell 2000	1135.89	1151.92	1219.94	5.90%	7.40%
Global Dow	2336.45	2312.12	2411.26	4.29%	3.20%
Fed. Funds rate target	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps
10-year Treasuries	2.26%	1.46%	1.45%	-1 bps	-81 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- **Employment:** The labor market picked up the pace in June after a pullback in May, based on the latest information from the Bureau of Labor Statistics. Total nonfarm payroll employment added 287,000 new jobs in June compared to the revised estimate of only 11,000 in May. Job growth occurred in leisure and hospitality, health care and social assistance, and financial activities. The unemployment rate increased by 0.2 percentage point to 4.9% in June, and the number of unemployed persons increased by 347,000 to 7.8 million. The labor force participation rate remained at 62.7%. The average workweek was 34.4 hours for the fifth consecutive month. In June, average hourly earnings for all employees on private

Key Dates/Data Releases

8/1: ISM Manufacturing Index

8/2: Personal income and outlays (for June)

8/5: Employment situation, international trade

8/9: Productivity and costs

8/10: JOLTS, Treasury budget

8/11: Import and export prices

8/12: Retail sales, Producer Price Index

8/16: Consumer Price Index, housing starts, industrial production

8/23: New home sales

8/24: Existing home sales

8/25: Durable goods orders

8/26: GDP, international trade in goods

8/29: Personal income and outlays (for July)

nonfarm payrolls edged up $0.02 to $25.61 on the heels of a $0.06 increase in May. Over the year, average hourly earnings have risen by 2.6%.

- **FOMC/interest rates:** At its meeting at the end of July, the Federal Open Market Committee opted to maintain the target range for the federal funds rate at its current 0.25% to 0.50%. The rate range has not changed since last December. In its statement, the FOMC noted improvement in the employment sector, growth in household spending, and expanding economic activity in general. However, business fixed investment has been soft, while inflation continues to run below the Fed's long-run objective of 2.0%. The Committee does not meet again until September, when the possibility of a rate hike may be realized.
- **Oil:** Crude oil prices took a nosedive during July, as prices dropped to under $42 per barrel by the close of the month. This is well below the June closing price of $48.57 per barrel.
- **GDP/budget:** The most recent estimate for the second-quarter GDP showed only a modest 1.2% annual rate of growth. On the plus side, consumer spending jumped 4.2%. However, businesses apparently aren't quite as confident in the prospect of economic growth, as the report showed diminishing business investment and inventories--a drag on the GDP, which has not experienced a rate of growth of at least 2.0% in three quarters. The year-to-date federal deficit was $487.0 billion through June, compared to the $316.4 billion deficit over the same period last year--an increase of about 27%. June actually saw a budget surplus for the month of $6.3 billion. For the month, the government took in $329.6 billion in receipts and paid out $323.3 billion in expenditures.
- **Inflation:** The latest inflation rate for the United States based on the Consumer Price Index is 1.0% through the 12 months ended June 2016, as published by the Bureau of Labor Statistics--still below the Fed's stated target rate of 2.0%. For June, the Consumer Price Index rose 0.2%--the same increase as May. The index for all items less food and energy (core prices) increased 0.2% in June. Core prices rose 2.3% over the 12 months ended in June--the same increase as for the 12 months ended May. Businesses paid higher prices for goods and services in June as the Producer Price Index rose 0.5% in June from May--the biggest increase in a year. Prices less foods, energy, and trade services rose 0.3% in June after declining 0.1% in May. The index for services advanced 0.4% in June, the third consecutive monthly increase. Prices for goods rose 0.8%. Since businesses generally pass on any price increases they incur to the consumer, rising producer prices may be a precursor to further price increases for consumers, which will likely accelerate inflationary pressure. Not deterred by rising prices, consumers continued to spend, as retail sales for goods and services increased 0.6% for June from the previous month and 2.7% above June 2015. Excluding autos and gasoline, retail sales climbed 0.7%. Nonstore retailer sales (online sellers) were up 14.2% from June 2015, while department store sales fell 3.8% over the same period.
- **Housing:** Consumers continued to invest in real estate in June on the back of a solid job market and low mortgage rates. In June, new home sales increased 3.5% for single-family homes from the prior month, and a whopping 25.4% ahead of June 2015. Prompted by increasing demand and limited supplies, the median sales price for new homes jumped from $288,800 in May to $306,700 in June, while the average sales price was $358,200. With roughly 244,000 new homes available for sale, the supply is down to 4.9 months compared to 5.1 months in May. Sales of existing homes also increased in June--up 1.1% to an annual rate of 5.57 million compared to 5.51 million in May. Existing home sales are up 3.0% from a year ago. The median existing-home price for all housing types in June was $247,700, up 3.7% from the prior month and 4.8% ahead of June 2015. The 2.12 million existing homes available for sale represents a supply of 4.6 months, a slight decrease from the 4.7-month supply in May. Single-family home starts increased 4.8% in June as did the number of building permits issued, which increased 1.5% for the month.
- **Manufacturing:** June brought conflicting information on the health of the manufacturing sector. On the one hand, the Federal Reserve reported that industrial production increased 0.6 percentage point in June following a 0.3 percentage point decline in May. Manufacturing output moved up 0.4 percentage point in June, a gain largely due to an increase in motor vehicle assemblies. However, total industrial production for the 12 months ended June 2016 is down 0.7 percentage point. The recent increase in industrial production is reflected in manufacturers' guarded optimism as both the Markit U.S. Manufacturing Purchasing Managers' Index™ and the Institute for Supply Management PMI showed improvement in June compared to May. The Markit PMI was 51.3 in June, up from 50.7 for May. The ISM Manufacturing Index for June came in at 53.2, following May's reading of 51.5. On the other hand, new orders for manufactured goods fell a noticeable 4.0 percentage points in June. Unfilled orders also dropped 0.9 percentage point, meaning manufacturers are meeting demand, which is a good thing, unless new orders continue to slow, which may cause manufacturers to cut back on jobs.
- **Imports and exports:** Based on the advance report from the Census Bureau, the trade deficit grew about 3.7% to $63.3 billion in June from $61.1 billion in May. June's exports were $120.2 billion, while

imports totaled $183.5 billion. Based on advance figures, the trade in goods deficit for the first four months of 2016 sits at $239.0 billion. Import prices for goods manufactured abroad and purchased here rose 1.8% for the month, and export prices increased 0.9% in June. The goods deficit in June 2016 is essentially the same as the June 2015 deficit ($63.8 billion).

- **International markets:** Following the UK's referendum vote in late June to leave the European Union, UK business and consumer confidence about their respective economic prospects has been less than upbeat. UK businesses cut payroll and output in response to the uncertainty created by the Brexit vote, in contrast to the eurozone, where businesses added to their payrolls at a rate not seen in the last five years. The European Central Bank kept its monetary policy intact with the benchmark rate at 0.0%. Equities in the UK have actually experienced a nice recovery from the end of June through July, with the FSTE 100 gaining almost 6.0%. Elsewhere, major stock indexes in Japan and China continue to run below their 2015 year-end closing values.
- **Consumer sentiment:** The Conference Board Consumer Confidence Index® for June, at 97.3, remained relatively the same as May's reading of 97.4, as respondents expressed positive sentiments about the employment situation, but were not as confident in the prospects of economic growth in the short term.

Eye on the Month Ahead

The dog days of August will likely keep trading volumes light, which can sometimes heighten volatility. The FOMC does not meet in August so interest rates will remain unchanged for at least another month. Global economies will probably remain relatively quiet through August as well.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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