

MONTHLY ECONOMIC UPDATE

May 2016

MONTHLY QUOTE

“If you have knowledge, let others light their candles at it.”

– Margaret Fuller

MONTHLY RIDDLE

This three-letter word signifies something you do each day; mix the letters around and you have a beverage you can drink. What word is this?

Last month's riddle:

A woman walks into a cabin one afternoon in Florida. That evening, she walks out of the same cabin, yet she is now in New York. How is this possible?

Last month's answer:

She steps into an airplane cabin in Florida in the afternoon and steps out of it a couple of hours later when the plane lands in New York.

THE MONTH IN BRIEF

The S&P 500 managed to advance 0.27% in April as many companies beat earnings and revenue forecasts. Some important commodities posted remarkable monthly gains. Existing home sales rebounded, and manufacturing seemed to have recovered from its winter slump. Hiring continued to impress, but consumer spending figures and consumer confidence indices did not. All in all, it was a relatively calm month, absent of much of the volatility seen in the first quarter.¹

DOMESTIC ECONOMIC HEALTH

In early April, the Labor Department reported a net gain of 215,000 jobs in March, placing the average monthly net job increase at 209,000 for the first quarter. Since the labor force participation rate rose slightly in March, the unemployment rate ticked up 0.1% to 5.0%. The U-6 rate, including the underemployed, also rose 0.1% to 9.8%. The average hourly wage was \$25.43 in March, and that was 2.3% higher than in March 2015.²

By the initial estimate of the Bureau of Economic Analysis, the economy had grown only 0.5% in the opening quarter of 2016. That sluggish growth was underlined by the March personal spending number. The Commerce Department noted just a 0.1% rise in consumer spending in the year's third month; consumer incomes did grow by 0.4%, however. So, continuing a recent trend, Americans saved more of what they earned. Retail sales fell 0.3% in March; core retail purchases were up 0.2%.^{3,4}

Consumer prices rose just 0.1% in March, with the core Consumer Price Index making the same small advance as the headline CPI. (Inversely, both the headline and core Producer Price Index declined 0.1% for March.) The core CPI was up 2.2% on an annualized basis.⁴

The March numbers for the manufacturing and non-manufacturing purchasing manager indices maintained by the Institute for Supply Management were encouraging. While the BEA's initial Q1 GDP estimate suggested an economy on stall speed, ISM's factory PMI recaptured the 50 level in the third month of 2016, signaling growth for the factory sector. Its 51.8 mark was 2.3 points above its recessionary reading in February. ISM's services PMI improved 1.1 points to 54.5 in March, its best reading since December. In other news related to industry, the Census Bureau reported capital goods orders rising 0.8% in March; although, they were down 0.2% with transportation orders factored out.^{3,5}

Household sentiment declined last month. The University of Michigan's consumer sentiment index slipped 1.3 points in its preliminary April reading to 89.7, then fell further to a final April mark of 89.0. As for the Conference Board's consumer conference index, it lost 1.9 points in April and fell to 94.2.^{3,4}

GLOBAL ECONOMIC HEALTH

As April drew to a close, the Bank of Japan decided not to bolster its economic stimulus. That decision disappointed investors, who figured on additional measures. With annualized deflation of 0.1% measured in March, the BofJ pushed its goal of achieving 2% inflation into 2017. Elsewhere in Asia, China's central bank made its biggest yuan rate move in 11 years on April 28, sending the currency 0.56% higher in a day as the U.S. Dollar Index reach its lowest point since June 2015.^{6,7}

According to Eurostat, the eurozone's economy grew 0.6% in Q1. Data suggested that the long-beleaguered Spanish economy would expand 1.5% in the year's opening quarter. France's economy grew 0.5% in Q1; Italy's economy 0.3%. As the eurozone unemployment rate dipped to 11.4% in March, Italy's jobless rate hit a

four-year low. Unemployment in Germany stayed at an all-time low of 6.2% in April.^{6,8}

WORLD MARKETS

On the whole, European markets outperformed their Asia Pacific counterparts in April. The Europe Dow rose 2.97%; the DAX, 0.74%; the CAC 40, 1.00%; the STOXX 600, 1.17%; the FTSE MIB, 2.67%; the IBEX 35, 3.47%; and the RTS, a whopping 8.55%. Ireland's ISEQ staged the only notable retreat, losing 2.34%.¹

April winners in the Asia Pacific region included the KSE 100, +4.77%; the Hang Seng, +1.40%; the Sensex, +1.04%; the Asia Dow, +1.07%; and the S&P/ASX 200, which went +3.33%. Losers included the Shanghai Composite, -2.18%; the Nikkei 225, -0.55%; and the Kospi, -0.09%.¹

Benchmarks in the Americas were largely positive, some quite so. To our south, the IPC All-Share fell 0.21%, but the Bovespa rose 7.70% and the Merval, 5.63%. To our north, the TSX Composite advanced 3.39%. The Dow Jones Americas gained 0.94%; the Global Dow, 2.69%; the MSCI World, 1.38%; and the MSCI Emerging Markets, 0.40%.^{1,9}

COMMODITIES MARKETS

April brought some relief to beleaguered commodity investors. The energy sector was red hot in particular. Oil jumped 20.68%, settling at \$45.99 on the NYMEX on April 29. Unleaded gas futures advanced 13.27%; natural gas futures, 9.02%; and heating oil futures, 17.38%.¹⁰

As for metals, gold rose 4.89% to close April at \$1,294.90 on the COMEX, and silver ended the trading month at \$17.89 thanks to a 15.71% surge. Copper prices improved 4.17%; platinum prices, 10.34%.¹⁰

Coffee was the only notable loser among crops, falling 5.56%. Other key crops posted gains across the board: cotton rose 9.12%; sugar, 6.45%; cocoa, 7.99%; wheat, 1.48%; soybeans, 12.12%; corn, 10.98%. How did the U.S. Dollar Index do in April? It logged an 0.61% gain, settling at 95.21 on April 29.^{10,11}

REAL ESTATE

As temperatures warmed up, the residential real estate market heated up, as well. Existing home sales reversed some of their February decline in March when the National Association of Realtors announced a 5.1% rise in the pace of homebuying. The median sale price was at \$222,700 in March, representing a 5.7% annualized improvement. NAR's pending home sales index showed a 1.4% gain for March, which precisely matched its year-over-year advance. The yearly overall gain in the 20-city S&P/Case-Shiller home price index declined 0.3% to 5.4% in the February edition.^{3,12}

Housing indicators at the Census Bureau were resoundingly negative. New home sales fell off 1.5% for March. Groundbreaking declined by 8.8%.^{3,12}

Although they plunged in the middle of the month, mortgage interest rates rose as April ended. Freddie Mac's April 28 Primary Mortgage Market Survey calculated the following averages: 30-year FRM, 3.66%; 15-year FRM, 2.89%; 5/1-year ARM, 2.86%. These were still all lower than the average interest rates reported by Freddie Mac on March 31: 30-year FRM, 3.71%; 15-year FRM, 2.98%; 5/1-year ARM, 2.90%.¹³

LOOKING BACK...LOOKING FORWARD

April ended with the Dow settling at 17,773.64, the Nasdaq at 4,775.36, and the S&P 500 at 2,065.30. As for the small caps and the so-called "fear index," the Russell 2000 wrapped up the month at 1,130.84, the CBOE VIX at 15.70. For the month, the DJIA rose 0.50%; the S&P, 0.27%; the RUT, 1.51%; the VIX, 12.54%; the NASDAQ slipped 1.94%. Looking across the broad canvas of U.S. indices, the PHLX

Gold/Silver index had another amazing month, rising 33.58% to reach 104.97% YTD. The Nasdaq Computer index brought up the rear, falling 6.26% in April.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+2.00	-1.45	+7.75	+5.64
NASDAQ	-4.63	-4.94	+13.24	+10.56
S&P 500	+1.05	-1.97	+10.29	+5.76
REAL YIELD	4/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.12%	0.14%	0.75%	2.39%

Sources: wsj.com, bigcharts.com, treasury.gov – 4/29/16^{1,14,15,16}
 Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

At the end of April, the Q1 earnings season looked better than some analysts predicted. While some of the tech giants disappointed their shareholders during the month, only 15% of S&P 500 firms reporting missed earnings expectations (the historical norm is 24%). Additionally, 73% of S&P 500 firms reporting results surpassed earnings forecasts (66% is the historical average). Investors thinking of “selling in May and going away” might want to reconsider, given the recent climb of commodities, the rebound in manufacturing and the continued strength of the labor market. June could be a more tumultuous month than May: the United Kingdom will vote on whether or not to remain in the European Union, and the Fed could make a rate move. While Wall Street’s solid rally back from February lows has subsided, bearish sentiment has not yet cowed the bulls. Last May, stocks hit record highs; with some luck, they may approach them again.¹⁷

UPCOMING ECONOMIC RELEASES: Across May, the major U.S. economic news will appear on this timetable: the April ADP employment change report, ISM’s April service sector PMI and March factory orders (5/4), April’s Challenger job-cut report (5/5), the Labor Department’s April employment report (5/6), March wholesale inventories (5/10), April retail sales, the April PPI, April business inventories and the initial May University of Michigan consumer sentiment index (5/13), April housing starts and building permits, April industrial output and the April CPI (5/17), the minutes from the April Federal Reserve policy meeting (5/18), April existing home sales (5/20), April new home sales (5/24), April durable goods orders and April pending home sales (5/26), the University of Michigan’s final May consumer sentiment index and the BEA’s second estimate of Q1 growth (5/27), and then to wrap up May, a new consumer confidence index from the Conference Board, the March S&P/Case-Shiller home price index, and the April consumer spending report from the Commerce Department (5/31).

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The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The RTS Index (abbreviated: RTSI, Russian: $\square\square\square\square\square\square\square\square$) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange. The ISEQ Overall Index is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies. Karachi Stock Exchange 100 Index (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The Asia Dow measures the Asia equity markets by tracking 30 leading blue-chip companies in the region. The S&P/ASX 200 index is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The Mexican IPC index (Indice de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Merval Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Dow Jones Americas Index measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region. The Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. 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