

Market Week: August 29, 2016



Key Dates/Data Releases
 8/29: Personal income and outlays
 8/30: Case-Shiller Home Price Index, consumer confidence
 8/31: Pending Home Sales Index
 9/1: PMI Manufacturing Index, ISM Manufacturing Index
 9/2: Employment situation, international trade, factory orders

The Markets (as of market close August 26, 2016)

As the "dog days" of summer drag on, trading continues to be relatively light. Oil prices fell at the beginning of last week amid rumors that Iraq may up its oil exports, prompting stocks to retreat. While stocks rallied midweek, they sunk by the close of trading last Friday following Federal Reserve Chair Janet Yellen's intimation that short-term interest rates could be in line for an increase sooner rather than later. Of the indexes listed here, only the Russell 2000 didn't lose ground. The Dow, S&P 500, and Nasdaq suffered their largest losses since the week of the Brexit vote in June.

Overseas, retail sales picked up in the UK in July as the weak pound (a result of the fallout from Brexit) may be attracting foreign consumers. China's economic growth has clearly slowed as industrial production and retail sales weakened.

The price of crude oil (WTI) closed at \$47.33 a barrel last week, down from \$48.57 per barrel the previous week. The price of gold (COMEX) fell, closing at \$1,325.00 by late Friday afternoon, down from the prior week's price of \$1,345.80. The national average retail regular gasoline price increased for the first time in the last 10 weeks to \$2.193 per gallon on August 22, \$0.044 higher than the prior week's price but \$0.444 below a year ago.

Market/Index	2015 Close	Prior Week	As of 8/26	Weekly Change	YTD Change
DJIA	17425.03	18552.57	18395.40	-0.85%	5.57%
Nasdaq	5007.41	5238.38	5218.92	-0.37%	4.22%
S&P 500	2043.94	2183.87	2169.04	-0.68%	6.12%
Russell 2000	1135.89	1236.77	1238.03	0.10%	8.99%
Global Dow	2336.45	2455.47	2442.01	-0.55%	4.52%
Fed. Funds target rate	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps
10-year Treasuries	2.26%	1.58%	1.63%	5 bps	-63 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.

Last Week's Headlines

- With no Federal Open Market Committee meeting scheduled for August, the focus was on FOMC Chair Janet Yellen's presentation at Jackson Hole, Wyoming, last week. The highlight of Yellen's speech was her statement that, "in light of the continued solid performance of the labor market and our outlook for economic activity and inflation, I believe the case for an increase in the federal funds rate has strengthened in recent months." Clearly, these remarks open the door to a rate increase as soon as next month, although Yellen cautioned that the ultimate decision would rest on incoming data, not the least of which is the latest jobs report out this week.
- The gross domestic product increased at an annual rate of 1.1% in the second quarter of 2016, according to the second estimate released by the Bureau of Economic Analysis. Last month's advance estimate had the second-quarter GDP increasing by 1.2%. In the first quarter, the GDP increased 0.8%. The increase in real GDP in the second quarter primarily reflected positive contributions from personal consumption expenditures (PCE or consumer spending) and exports that were partly offset by negative contributions from private inventory investment, residential fixed investment, state and local government spending and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.
- Judging by the advance report on factory orders for July, manufacturers should be pretty busy in the coming months. According to the latest report from the Census Bureau, new orders for durable goods (expected to last at least three years) jumped 4.4% in July after falling 4.2% in June. Shipments increased by 0.2% for the month, while factory inventories, down for the past six months, gained 0.3% over June. Excluding aircraft and autos, core capital goods climbed a noteworthy 1.5%. While this is an advance report and final figures could differ, these figures point to the possibility that the manufacturing sector is picking up steam, contributing to overall economic growth.
- Sales of new single-family homes continued to expand in July, as the Census Bureau reported sales increased 12.4% compared to June. New home sales are 31.3% above July 2015. The median sales price of new houses sold in July 2016 was \$294,600; the average sales price was \$355,800. The seasonally adjusted estimate of new houses for sale at the end of July was 233,000. This represents a supply of 4.3 months at the current sales rate.
- Lack of inventory in many parts of the country is curtailing the sale of existing homes, according to the latest report from the National Association of Realtors®. Total existing home sales, which are completed transactions that include single-family homes, townhomes, condominiums, and co-ops, fell 3.2% to a seasonally adjusted annual rate of 5.39 million in July, down from 5.57 million in June. For only the second time in the last 21 months, sales are now below (1.6%) a year ago (5.48 million). With inventory at a premium, the lack of affordable homes for sale is discouraging prospective buyers despite low mortgage rates.
- The Markit Flash U.S. Manufacturing Purchasing Managers' Index™ (PMI™) registered at 52.1 in August, down from July's nine-month high of 52.9. A reading over 50 indicates improving business conditions. August saw a further upturn in overall business conditions, albeit at a slower rate than in July. Total new work rose at a slower pace and employment expanded at the weakest rate in four months. The euro area economy continued to expand at a steady pace in August, as the flash estimate of the Markit Eurozone PMI® inched up to a seven-month high of 53.3, up from 53.2 in July.
- The international trade deficit for July was \$59.3 billion in July, a decrease of \$5.2 billion compared to June. Exports of goods were up \$2.9 billion, while imports dropped \$2.4 billion.
- According to the University of Michigan's Index of Consumer Sentiment, confidence eased back in late August to register a trivial decline to 89.8 from the July reading of 90.0. Less favorable personal financial prospects were largely offset by a slight improvement in the outlook for the overall economy.
- In the week ended August 20, the advance figure for seasonally adjusted initial unemployment insurance claims was 261,000, a decrease of 1,000 from the prior week's unrevised level. The advance seasonally adjusted insured unemployment rate remained at 1.6%. The advance number for seasonally adjusted insured unemployment during the week ended August 13 was 2,145,000, a decrease of 30,000 from the previous week's revised level.

Eye on the Week Ahead

Two important economic reports are out next week. Personal income and outlays focuses on consumer income and spending, and includes the personal consumption expenditures price index—a favored measure of inflation for the Fed. The week closes with the latest employment situation report, which can be a market mover.

Data sources: 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. Market data: 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). 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. Market indices listed are unmanaged and are not available for direct investment.