Eye on the Market Express: August 2015

MARKET DATA				
	July	3 Mo.	YTD	1 Year
S&P 500	1.97%	0.88%	2.18%	8.97%
Russell 2000	-1.22%	1.52%	2.82%	10.59%
NASDAQ	2.84%	3.78%	8.28%	17.36%
MSCI EAFE ($ basis)	2.02%	-2.01%	5.91%	-2.73%
MSCI EAFE (local)	3.46%	-0.23%	10.76%	13.07%
UK (FTSE)	2.69%	-3.80%	1.98%	-0.50%
Germany (DAX)	3.33%	-1.27%	15.33%	20.21%
Japan (NIKKEI)	1.73%	5.46%	17.96%	31.78%
MSCI Emerging Markets ($ basis)	-7.26%	-13.94%	-5.71%	-15.40%
Barclays Aggregate	0.70%	-0.64%	0.59%	2.82%

NPH Due Diligence: All market data as of the end of July 2015. Quoted index returns are based on month end index prices (in local currency except where noted) and do not include dividends.

U.S. ECONOMIC DATA				
	July	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	2.21%	2.34%	2.17%	2.56%
Gold (London pm fixing per ounce in dollars)	1,098	1,171	1,199	1,285
Oil ($ per barrel)	47.12	58.77	53.27	98.17
VIX Index	12.12	18.23	12.80	16.95

All economic and market data as of the end of July 2015.

The Federal Open Market Committee (FOMC) concluded its July monetary policy meeting by keeping the benchmark Federal Funds rate unchanged in a range of 0-0.25%. The FOMC was unanimous in this decision. In its press release, the FOMC stated that “the Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and it is reasonably confident that inflation will move back to its 2 percent objective over the medium term." This phrasing is almost identical to that used in the June press release. However, by saying that "some further improvement is needed" instead of "further improvement is needed," market participants have viewed this as an indication that the Fed believes the economy has improved since it met in June, and is closer to meriting a rise in the federal funds rate. A survey of economists now suggests that a rate rise will occur at the FOMC's September meeting, whereas the derivatives market implies a December rate increase. The Fed has consistently been communicating that it expects to raise rates sometime this year. Accordingly, in testimony before the U.S. Congress this month, Federal Reserve Chairperson, Janet Yellen, stated that "if the economy evolves as we expect, economic conditions likely would make it appropriate at some point this year to raise the federal funds target rate, thereby beginning to normalize the stance of monetary policy."

Looking at economic data released in July, housing was disappointing. New home sales for June fell to a 482,000 annualized pace when a 548,000 pace had been expected, and pending home sales declined by 1.8% in June when a 0.9% gain had been expected. In addition, the S&P/Case-Shiller 20-city home price index declined by 0.2% in May when a 0.3% increase had been expected. On a year-over-year basis, the index shows home prices rose by 4.9%. However, existing home sales data was a bright spot, with existing home sales beating expectations and coming in at 5.49 million annualized pace. Data from the labor market was modestly positive. Weekly initial jobless claims were fairly consistently lower (better) than expectations throughout the month with the week of July 20-24 coming in at the lowest level since 1973. June non-farm payroll additions came in at 223,000, although they missed expectations of 233,000. The unemployment rate fell to 5.3% from 5.5% last month. However, the decline in the unemployment rate is partially due to the labor force participation rate declining to its lowest level since 1977. Wages were a weak spot in labor market data. Wage growth was flat in June when a 0.2% increase had been expected, bringing wage growth to a 2.0% annualized pace when it had been 2.3% at the end of May. Inflation, as measured by the Consumer Price Index (CPI), met expectations and increased by 0.3% in June. Higher rent appears to have driven the increase. On an annualized basis the CPI has increased by only 0.1% with declining energy prices driving the index down. Core CPI, which excludes more volatile energy and food prices, increased by 1.8% on an annualized basis. Finally, data on consumer sentiment declined in July. The University of Michigan consumer sentiment index fell for July to 93.1 and missed expectations. The drop in consumer sentiment has been at least partially attributed to headline-grabbing global economic concerns, which we will discuss in the international section.

Domestic equity markets were mixed in July. The benchmark S&P 500 increased by 1.97% for the month, rebounding from losses in June and bringing it into positive territory for the year with a 2.18% gain. Small cap stocks, as measured by the Russel 2000 Index, declined by 1.22% for the month, although the index is still up 2.82% for the year. The technology heavy NASDAQ composite index outperformed for the month with a gain of 2.84%, bringing its gain for the year up to 8.28%. Drilling down into sector performance, most were positive for in July. Utilities and consumer staples lead for the month, posting gains of 6.06% and 5.51%, respectively. The strong performance in utilities has been attributed to market expectations that the Fed will raise rates in December instead of September. The worst performing sectors were energy and materials, which declined by 7.65% and 5.02% for the month. Second quarter corporate earnings started to come in during the month with Amazon.com surprising analysts by posting a $92 million profit when a loss had been expected. Market participants were especially pleased with profits generated by Amazon's cloud computing services unit, and the company passed the symbolic milestone of having its market capitalization exceed that of Walmart for the first time.

International stocks rallied in July with the benchmark MSCI EAFE Index rising by 3.46% on a local currency basis, which when translated into dollars, resulted in a 2.02% rise due to the dollar strengthening during the month against several developed currencies. International markets mainly declined at the start of the month after considerable uncertainty arose regarding whether or not Greece would be able to continue using the euro as its currency. Greece's government enacted capital controls and called a national election for July 5th, asking Greek voters to reject the austerity measures its creditors had proposed, arguing that a no vote would increase their bargaining power with creditors. About 60% of voters agreed. Ultimately, Greece presented a proposal that satisfied its creditors, the terms of which were harsher than the proposal its voters had rejected. With the probability of Greece leaving the euro receding, stocks rallied. The German DAX rose by 3.33% for the month and the British FTSE 100 rose by 2.69%. The broader European economy has been recovering, with the IMF stating that it is “strengthening, driven by rising domestic demand and supported by lower oil prices, the ECB’s quantitative easing under the expanded asset purchase program, and a weaker euro.” The IMF projects the Eurozone will grow by 1.5% in 2015. The Japanese Nikkei rose by 1.73% for the month and is up 17.96% for the year. Growth in the stock market has been in contrast to weak economic data. Economists estimate that the Japanese economy contracted in the second quarter as household spending has declined and inflation has been flat. Emerging markets equities, as measured by the MSCI Emerging Markets Index, declined by 7.26% in July. The index is down 5.71% for the year. China’s stock market, the Shanghai Composite Index, continued its decline that began in June, losing 14.34% in July. The index is off 33.56% from its mid-June peak. In an attempt to staunch the decline, the Chinese government stepped in early in the month capping short selling, suspending IPOs, suspending trading for some investors, and purchasing stocks. By the middle of the month it appeared that the government’s efforts had succeeded. However, after rumors emerged that the government was reducing its support of the markets, shares resumed their decline to the end of the month. Despite the recent slide in share prices, the stock market is still up 66.41% over the last year, and China’s second quarter GDP reading met the government’s target, coming in at a 7% annualized pace.

Fixed income prices rose during July with the benchmark Barclays Aggregate Bond Index rising by 0.70%, in response to falling interest rates and market expectations that the Fed to raise rates in December instead of September. July’s gains brought the index into positive territory for the year, with it registering a 0.59% increase year-to-date. The yield on the benchmark 10-year Treasury note fell by 13 basis points during July to finish at 2.21%. As one would expect, longer duration fixed income had the largest moves during the month with long duration treasuries rising by 3.50%, narrowing their year-to-date price decline to nearly 1.33%. High-yield bonds fell by 0.60% during the month as the U.S. junk bond market continued to come under pressure from declines in energy and metals prices. Late in the month, Puerto Rico announced that the U.S. commonwealth would not pay a $58 million obligation due on August 1. Despite this announcement, municipal bonds were positive for the month with the Barclays Municipal Index rising 0.72% in July.

Commodity prices declined significantly in July with the benchmark Reuters/Jefferies CRB Index losing 10.83%, bringing its year-to-date loss to 11.91%. Commodity declines were broad-based. Oil prices fell from $58.77 to $47.12 as market participants worried about slower global economic growth, especially in China, and anticipated supply increases resulting from the Iran nuclear deal. Metal prices also fell with gold dropping by 6.20% to $1,098 per ounce. Other metals, such as nickel and copper, and agricultural commodities also lost value during the month. Finally, volatility, as measured by the VIX index, fell in July, with the index finishing at 12.12.

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INDEX	DESCRIPTION
10 Year Treasury	The closing yield on 10-year Treasury notes calculated on a daily basis. Data sourced from the Federal Reserve.
Barclays Capital Aggregate Bond Index	A broad based index used to represent performance of investment grade bonds traded in the United States. The index includes Treasury securities, government related and corporate securities, mortgage-backed securities and asset-backed securities.

Barclays Municipal Bond Index	An unmanaged index considered representative of the tax-exempt bond market.
BofAML Masters II High Yield Index	An unmanaged index tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Conference Board Consumer Confidence	An indicator used to measure consumer confidence in the economy produced by the Conference Board on a monthly basis based upon a survey of 5,000 households.
DAX (Germany)	A total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.
Dow Jones Industrial Average	An unmanaged index of 30 widely held securities.
Federal Funds Rate	Targeted interest rate at which depository institutions lend to each other overnight. The rate is targeted by the Federal Open Market Committee (FOMC).
FTSE (UK)	A capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.
FTSE NAREIT All REITs Index	Market capitalization weighted index that includes all tax-qualified REITs listed on the New York Stock Exchange.
GDP	A measure of broad economic output in the United States produced by the US Bureau of Economic Analysis on a quarterly basis with revisions made monthly.
Gold	Value of gold based upon the afternoon fix (15:00 GMT) in London each afternoon.
ISM	A measure of manufacturing activity reported by the Institute of Supply Management each month. A reading over 50 signifies growth in manufacturing during the month.
MSCI EAFE	A widely accepted benchmark of foreign stocks. It comprises 21 MSCI country indices, representing the developed markets outside North America: Europe, Australasia and the Far East.
MSCI Emerging Markets	A widely accepted benchmark of emerging markets stocks. It is a float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.
NASDAQ	An unmanaged index of all stocks traded on the NASDAQ over-the-counter market.
Nikkei (Japan)	An unmanaged price-weighted index of 225 widely held stocks listed in Japan.
Oil	Closing value of light, sweet crude oil futures in the near month.

Retail Sales	A measure of retail sales compiled monthly by the US Department of Commerce
Russell 2000	An unmanaged index of small cap securities.
S & P 500	An unmanaged index of 500 widely held stocks.
Shanghai Composite	Index of all listed (A and B share class) stocks traded on the Shanghai Stock Exchange.
Thomson-Reuters Jefferies CRB Index	A widely accepted benchmark of commodity prices. The index is designed to provide a representation of long-only broadly diversified investment in commodities.
Unemployment	A measure of unemployment compiled monthly by the US Bureau of Labor Statistics.
VIX Index	Measure of market expectations of near-term volatility based on S&P 500 stock option prices.