Eye on the Market Express: May 2016

MARKET DATA				
	April	3 Mo.	YTD	1 Year
S&P 500	0.27%	6.45%	1.05%	-0.97%
Russell 2000	1.51%	9.22%	-0.44%	-7.32%
NASDAQ	-1.94%	3.50%	-4.63%	-3.36%
MSCI EAFE ($ basis)	2.49%	6.39%	-1.35%	-11.74%
MSCI EAFE (local)	0.85%	-0.60%	-6.44%	-13.46%
UK (FTSE)	1.09%	2.60%	-0.01%	-10.33%
Germany (DAX)	0.74%	2.46%	-6.55%	-12.36%
Japan (NIKKEI)	-0.55%	-6.71%	-12.44%	-14.62%
MSCI Emerging Markets ($ basis)	0.40%	13.18%	5.80%	-19.81%
Barclays Aggregate	0.38%	2.02%	3.43%	2.72%

All market data as of the end of April 2016. 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				
	April	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	1.82%	1.79%	2.27%	2.05%
Gold (London pm fixing per ounce in dollars)	1,286	1,237	1,062	1,180
Oil ($ per barrel)	45.98	36.94	37.13	59.63
VIX Index	15.70	13.95	18.21	14.55

All economic and market data as of the end of April 2016.

The Federal Open Market Committee (FOMC) met again in April and elected to hold the benchmark Federal Funds rate unchanged in a range of 0.25-0.50%. There was no scheduled press conference following the meeting, so the only new information available to interpret was the differences between the FOMC's April and March statements, which indicated little change in the Committee's interpretation of the economic data since their last meeting. The Federal Reserve (the Fed) has a dual mandate to foster maximum employment and price stability, and the FOMC's statement highlighted that labor data has consistently been encouraging, saying that economic data received since it "met in March indicates that labor market conditions have improved further even as growth in economic activity appears to have slowed." However, it acknowledged that the economy is still falling short in terms of price stability with inflation running too low, although the FOMC states that it expects inflation to pick up "as the transitory effects of declines in energy and import prices dissipate." Once again the decision to hold rates steady was not unanimous with the Kansas City Fed President dissenting for the second consecutive meeting, and the statement left the door open for a rate hike in June, if economic conditions warrant it. However, in trading immediately after the announcement, the futures market indicated that expectations are for the next hike to be in September.

Economic data released in April was mixed, but a general theme of weaker than expected consumer spending has been appearing for much of this year. Consumer spending for March ticked up just 0.1%, and has been at muted levels for the first quarter. Weaker than anticipated consumer spending is also showing up in inventory data. Wholesale inventories declined in February, marking the fifth drop in as many months, and business inventories declined in February as well. Unfortunately, inventories are not declining because of increased sales since both wholesale sales and business sales fell in February, down 0.2% and 0.4% respectively. The business inventory to sales ratio, which measures how long it would take to deplete current inventory, is at its highest level since 2009, which suggests companies overestimated how well the economy was performing at the beginning of this year. Consumer spending accounts for approximately 70% of the U.S. economy, and the preliminary reading of first quarter GDP showed the consequence of this soft growth. Economists had forecast a 0.7% annual growth rate after growing 1.4% in the fourth quarter of last year, but the economy disappointed and grew at a 0.5% rate. However, not all economic data released this month was negative, and some of it makes the muted growth in consumer spending surprising. The FOMC made comments along these lines after its recent meeting saying, "Growth in household spending has moderated, although households' real income has risen at a solid rate and consumer sentiment remains high." In line with this sentiment, data released this month showed that personal income rose more than expected, growing 0.4% in March, and average hourly earnings ticked up by seven cents an hour, which translates to a 2.3% increase over the last twelve months. These income gains were not offset by inflation, meaning people's incomes grew in real terms, because the Fed's preferred measure of inflation, the Personal Consumption Expenditure (PCE) index, was essentially flat for March, reflecting a 0.6% annualized gain. In addition hiring data continues to indicate a strengthening labor market. Non-farm payrolls increased by 215,000 in March when economists had expected a reading of 205,000, and while the unemployment rate ticked up to 5.0% from 4.9%, this was largely due to more people entering the labor market as the participation rate moved up to 63%. Weekly initial unemployment claims have also been consistently strong with the last reading of April marking the 60th consecutive week of initial claims below 300,000, the longest streak since 1973. The two primary measures of how the consumer is feeling, the University of Michigan consumer sentiment index and the Conference Board's consumer confidence index, both moved lower in April. Interestingly, both surveys moved lower because consumers' expectations for future economic conditions have weakened, but they are generally positive about current conditions. Finally, more recent data suggests the pressure on industrial production might be easing. Data showed that orders for durable goods increased 0.8% in February, which was less than expected, but the Institute for Supply Management's (ISM) manufacturing index, which is forward looking, moved out of contraction territory for the first time in six months. The ISM non-manufacturing index, which represents the much larger service sector, remained in expansionary territory as it has been since 2009, but it increased more than expected, moving up to 54.5.

Domestic equities were mixed in April with the benchmark S&P 500 inching up 0.27% through the course of the month, which brought its year to date return to 1.05%. Small-cap stocks, as measured by the Russell 2000 index, outperformed the broader market this month, rising 1.51%, although the index has yet to recoup its losses from the start of this year, so it is still down 0.44% for 2016. The tech heavy NASDAQ composite underperformed and lost 1.94% in April, and year to date it is down 4.63%. One of the factors that weighed on the NASDAQ was Apple Inc., its largest component. Apple released first quarter financial results during the month that missed analysts' estimates for both earnings and revenue, including a 26% decline in revenue from China. The stock lost 14% of its value in April. According to data provider, FactSet earnings for S&P 500 companies for the first quarter will decline 7.6%[1] compared to a year ago. The decline in earnings is actually less than the firm had estimated going into earnings season since companies have been weighed down by the strong dollar and declining oil prices, but it is also the first time the index has seen four consecutive quarters of year-over-year declines in earnings since the third quarter of 2009.

International stocks were generally positive in April with the benchmark MSCI EAFE Index rising 0.85% for the month on a local currency basis and 2.49% when translated into dollars as the dollar weakened against a trade weighted basket of currencies over the period. In Europe, the European Central Bank (ECB) met in April and elected to leave its main interest rates and stimulus tools unchanged after

[1] FactSet's estimate combines actual results for companies that have reported and estimated results for companies yet to report. The estimate is as of April 29, 2016, when 62% of companies had already reported.

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announcing additional stimulus the month prior. Mario Draghi, President of the ECB, defended the bank's unconventionally loose monetary policy against critics saying the policies had provided "the necessary conditions for the return of growth to a higher level, and the necessary conditions for the return of interest rates to a higher level." In Asia, Japan was the only developed market index we track that lost value this month, declining 0.55%, which brings its year-to-date loss to 12.44%. The Bank of Japan met this month, and despite lowering its GDP forecast 0.3% to 1.2% for the 2016-2017 fiscal year, the bank confounded expectations by not increasing stimulus measures. China reported first quarter GDP numbers that were in line with expectations and showed the economy expanded by an annual rate of 6.7%. Growth has been supported by increased government lending. Many emerging markets are affected by growth in China, and stocks in those countries generally appreciated as the benchmark MSCI Emerging Markets index rose 0.40% in April, bringing its year-to-date return to 5.80%.

Fixed income returns for April were very similar to those in March and were generally positive this month with credit sensitive sectors outperforming interest rate sensitive ones. The benchmark Barclays Aggregate Bond index rose by 0.38% for the month, bringing its year-to-date return to 3.43%, and the 10-year Treasury yield ended the month by inching up from 1.79% to 1.82%. High yield was once again the top performing sector in April, with the Barclays U.S. High Yield index rising 3.92% for the month, and for the year it is up 7.40%. While most returns were positive, long-dated treasury notes lost value this month as they are most sensitive to rises in interest rates. The Barclays Long Term U.S. Treasury index declined 0.50% in April, but for the year it is up 7.61%.

Commodities continued their upward trend that began in mid-February with the benchmark Reuters/Jefferies CRB index gaining 8.26% in April and moving into positive territory for the year with a gain of 4.81%. The index was supported by rising oil prices with the WTI crude oil spot price appreciating almost 20% to close the month at $45.98 per barrel. Gold also appreciated this month with prices rising 3.93% to $1,286 per ounce, and the VIX index, which measures volatility rose to 15.7.

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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.