



Eye on the Market Express: June 2016

MARKET DATA				
	May	3 Mo.	YTD	1 Year
S&P 500	1.53%	8.52%	2.59%	-.50%
Russell 2000	2.12%	11.69%	1.66%	-7.36%
NASDAQ	3.62%	8.56%	-1.19%	-2.41%
MSCI EAFE (\$ basis)	-1.5%	7.04%	-2.82%	-12.17%
MSCI EAFE (local)	1.27%	4.66%	-5.25%	-13.26%
UK (FTSE)	-.18%	2.19%	-.18%	-10.79%
Germany (DAX)	2.23%	8.08%	-4.47%	-10.08%
Japan (NIKKEI)	3.41%	7.54%	-9.45%	-16.19%
MSCI Emerging Markets (\$ basis)	-3.90%	9.07%	1.68%	-19.59%
Barclays Aggregate	0.01%	1.32%	3.44%	2.98%

All market data as of the end of May 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				
	May	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	1.83%	1.82%	2.27%	2.10%
Gold (London pm fixing per ounce in dollars)	1,212	1,286	1,062	1,191
Oil (\$ per barrel)	49.10	45.98	37.13	60.30
VIX Index	14.19	15.70	18.21	13.84

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

The Federal Open Market Committee (FOMC) did not meet in May, so the Federal Funds rate remained unchanged in a range of 0.25-0.50%. However, the FOMC released the minutes from its April meeting this month, and many felt it struck a more hawkish tone than had been expected. The minutes address the FOMC's concern "that market participants may not have properly assessed the likelihood of an increase in [interest rates] at the June meeting, and they emphasized the importance of communicating clearly how the Committee intends to respond to economic and financial developments." Later in the month at a public engagement, Federal Reserve



Chair Janet Yellen appeared to adhere to the sentiment of the meeting minutes by commenting that “It’s appropriate...for the Fed to gradually and cautiously increase our overnight interest rate over time, and probably in the coming months such a move would be appropriate.” Although weak oil prices have weighed on inflation, Yellen stated that it “seems like they are roughly stabilizing at this point and my own expectation is that...inflation will move back up over the next couple of years to our 2 percent objective.” Finally, balancing her remarks a bit she warned of the limited room the FOMC has to respond to future crisis due to historically low interest rates, saying “It is important to be cautious...because if we were to trigger a downturn or to contribute to a downturn, we would have limited scope for responding.”

Economic data released in May was mixed but on balance positive. Last month’s commentary noted that data regarding the U.S. consumer has been generally weaker than expected, but data this month was significantly more encouraging. Consumer spending increased 1.0% in April, its fastest rise in almost seven years, and retail sales for April were also stronger than expected, growing 1.3%. Snapping a five month streak of declines, the Census department reported that both wholesale and business inventories rose in March. Inventories also moved off the shelves over the same period as the report showed wholesale and business sales also increased that month. Despite relatively strong consumption data this month, the two primary measures of consumer attitude moved in opposite directions with the University of Michigan consumer sentiment index rising in May to 94.7 from 89.0 in April, and the Conference Board’s Consumer Confidence index unexpectedly declining from 94.7 to 92.6. The Institute for Supply Management (ISM) non-manufacturing index remained comfortably in expansionary territory in April, moving up to a reading of 55.7 from 54.5 in March and beating analyst expectations. Readings above 50 indicate expansion, while readings below 50 indicate contraction. In contrast, data related to manufacturing and business investment was mixed. The ISM manufacturing index missed expectations and declined from 51.8 in March to 50.8 in April but avoided falling into contraction territory. Data released in May for both durable goods orders and factory orders were stronger than expected, but the boost was due to more volatile transportation orders. Additionally, non-defense capital goods orders excluding aircraft, which is a closely watched proxy for business investment, fell 0.8%, the third month in a row this number has declined. Corporate profits have been squeezed by a strong dollar, low oil prices and weaker demand from abroad, which most likely accounts for the decline in investment. Housing data this month was largely positive. Sales of both existing and new homes in March were stronger than analysts expected, with new home sales performing especially well, rising 16.6% from the prior month to a 619,000 annualized pace. Pending home sales and housing starts also came in above expectations, even though inventory is down 3.6% from a year ago. With limited supply, the S&P/Case-Shiller 20-city composite index rose 5.4% in the year-through March. Analysts reason that the housing market is being



supported by a stronger labor market, and while data released the month prior was consistent with this theory May's labor data was more mixed. All weekly initial unemployment claims readings were under 300,000, continuing its 65 week streak of coming in below this level. However, non-farm payroll growth came in lower than expected at 160,000 job additions in April when 202,000 had been forecasted, and the unemployment rate held steady at 5.0%. When workers with part time employment that would like full time employment are added, the unemployment rate fell 0.1% to 9.7%. The labor force participation rate, which had been growing in recent months, fell to 62.8%. Inflation still remained muted. The Fed's preferred measure of inflation, the Personal Consumption Expenditures index, rose 0.3% in April, bringing its year-over-year rise to 1.1%, which is well below the Fed's 2% inflation target. Finally, the Commerce Department raised its estimate of the pace of growth in the first quarter from 0.5% to 0.8%, with the improvement largely driven by stronger than previously thought housing and inventory data.

Domestic equities appreciated in May with the benchmark S&P 500 rising 1.53% for the month, bringing its return for the year up to 2.59%. Small-cap stocks as measured by the Russell 2000 index, outperformed the broader market this month, rising 2.12%, moving its return for 2016 into positive territory with a 1.66% gain. The tech heavy NASDAQ had the strongest returns this month, increasing by 3.62%, although for the year the index is still 1.19% lower than at the beginning of the year. As noted earlier, corporate profits have been declining, which theoretically should weigh on stock returns. However, there are indications that this contraction might be running its course. FactSet, a data provider, noted that corporate profits have declined for four quarters in a row, and while they are expected to decline again this quarter, aggregated analyst estimates indicate they are cutting their earnings expectations less than in previous quarters. In fact, as energy prices have stabilized, analysts have increased their earnings estimates for companies in that sector.[\[1\]](#)

International stocks were mixed in May with the benchmark MSCI EAFE Index rising 1.27% for the month on a local currency basis, but for the year it is still down by 5.25%. The dollar strengthened against a trade weighted basket of currencies over the month as markets priced in data that pointed to the Fed potentially raising interest rates sooner than had been thought. Consequently, when translated into dollars the index declined by 1.50% in May, and for the year it is down 2.82%. In Europe, bank stocks as a sector have weighed on returns this year. Their profits have been hit by a combination of negative interest rates, and market volatility which has reduced fees from investment banking and lowered revenue from wealth management. In emerging markets the benchmark MSCI Emerging Markets index declined by 3.90% on a local currency basis, but for the year it is still up 1.68%. While some emerging market economies have been hurt by the slump in commodity prices, India reported an annual growth rate of 7.9%, making it the fastest expanding large



economy in the world, a role previously held by China. In China last month, its currency, the renminbi, depreciated 1.6% against the dollar, its largest decline since it came under pressure last August, after the People's Bank of China reformed the way it sets its guidance for the value of the currency. The bank positioned the change as a way to reduce government control of the currency and allow market forces to play a greater role.

Fixed income prices moved little in May as the benchmark 10-year Treasury note began the month with a yield of 1.82% and ended it at 1.83%. The Barclays Aggregate bond index was essentially flat for May, and for the year it is up 3.45%. Yields moved lower for longer dated Treasuries, making them the best performing fixed income sector of the month, with the Barclays Long Term US Treasury index rising by 0.79% in May, and for the year it is up 8.47%. Credit sensitive sectors performed almost as well, with the Barclays U.S. High Yield index appreciated 0.62% for the month, bringing its year to date return up to 8.06%.

Commodity returns for May were mixed. The benchmark Reuters/Jefferies CRB index inched up 0.84% for the month, and it's up 5.68% for the year. Oil prices continued to move up, gaining 6.93% in May to \$49.10 per barrel, but gold prices moved lower by 5.72% to a price of 1,212 per ounce. Finally the VIX index, which is a measure of volatility, declined in May from 15.7 to 14.9.

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¹ https://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_6.3.16



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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.