Eye on the Market Express: August 2016

MARKET DATA				
	July	3 Mo.	YTD	1 Year
S&P 500	3.56%	5.24%	6.34%	3.32%
Russell 2000	5.90%	7.88%	7.40%	-1.51%
NASDAQ	6.60%	8.10%	3.09%	0.66%
MSCI EAFE ($ basis)	5.01%	-0.24%	-1.58%	-10.14%
MSCI EAFE (local)	4.69%	1.81%	-4.75%	-11.69%
UK (FTSE)	3.38%	7.73%	7.72%	0.42%
Germany (DAX)	6.79%	2.97%	-3.77%	-8.59%
Japan (NIKKEI)	6.38%	-0.58%	-12.95%	-19.51%
MSCI Emerging Markets ($ basis)	4.72%	3.96%	9.99%	-3.13%
Barclays Aggregate	0.63%	2.47%	5.98%	5.94%

All market data as of the end of July 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				
	July	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	1.46%	1.49%	2.27%	2.21%
Gold (London pm fixing per ounce in dollars)	1,342	1,321	1,062	1,098
Oil ($ per barrel)	41.54	48.57	37.13	47.12
VIX Index	11.87	15.63	18.21	12.12

The Federal Open Market Committee (FOMC) met in July and again chose to maintain the benchmark Federal Funds rate in a range of 0.25-0.50%. The decision was largely expected as the FOMC has had to digest volatile labor market data along with potential impact of the U.K.'s vote to leave the European Union (Brexit) to the U.S. economy. The decision to keep rates at their current target levels, was nearly unanimous with only the more hawkish president of the Kansas City Fed voting to raise rates this meeting. There was no press conference after the FOMC's meeting, but market participants generally regarded the FOMC's published statement as striking a more optimistic tone than it had in June, saying some of its concerns at that time have abated, and that near-term risks to the U.S. economy had diminished. It also commented that the job market recovery had regained momentum as "job gains were strong in June following weak growth in May." However, the statement also acknowledged that inflation is still below its 2% target with its preferred gauge of inflation, the Personal Consumption Expenditures (PCE) index, registering an inflation rate of 1.6% on both a headline basis and a core basis, which strips out more volatile food and energy prices. Noting a general economic theme, the statement said "on balance, payrolls and other labor market indicators point to some increase in labor market utilization in recent months. Household spending has been growing strongly but business fixed investment has been soft."

Economic data released in July was mixed, but generally held to the theme of a rebounding consumer and cautious spending and investment from business that the FOMC highlighted in its statement. After a very disappointing jobs report in May, non-farm payroll additions for June rebounded sharply. May's numbers were revised down to an anemic 11,000 new jobs, but the labor market added 287,000 jobs in June when economists had forecast an increase of only 175,000. Weekly unemployment claims also continued to remain at muted levels with all readings for this month coming in below 300,000, although the unemployment rate increased from 4.7% to 4.9% as the labor force participation rate ticked up a tenth of a percent to 62.7%. Average hourly earnings increased only 0.1% for the month, which was below expectations, but year-over-year earnings are up 2.6%, a full percentage point above the rate of inflation as measured by the PCE index. The data from the housing market was also generally positive in July. Both existing and new home sales for June beat expectations and hit their highest sales volume levels in years. Existing home sales in June were at a nine-year high to a seasonally-adjusted rate of 5.57 million units, and new home sales are at their highest levels since February 2008 at an adjusted annualized rate of 592,000 units sold. These sales numbers are especially surprising since analysts had expected existing home sales to decline due to tight inventories. Inventory levels were 6% lower than a year ago. House prices, as measured by the S&P Case-Shiller 20-city composite index, rose 5.2% year-over-year through the end of May, which missed analyst expectations of a 5.7% increase. Looking at the consumer, personal consumption beat analyst expectations and increased 0.4% in June. As has been the case for the last few months, retail sales were strong in June, rising 0.6% from the month prior and 2.7% from a year ago. Although consumption data was encouraging, the two primary gauges of consumer attitudes, the University of Michigan consumer sentiment index and the Conference Board's Consumer Confidence index, both declined in July, mainly due to concerns about economic prospects, including lingering worries about the effect of Brexit. Manufacturing data for July was also encouraging with industrial production increasing by 0.6% for the month and the Institute for Supply Management (ISM) manufacturing index beating expectations and rising to 53.2. Any reading above 50 indicates expansion. The ISM non-manufacturing index, which covers the significantly larger service sector, rose to a seven-month high in June to 56.7. However, while most of the data already discussed has been positive, investment by business has been disappointing. The Commerce Department's initial estimate of U.S. GDP growth for the second quarter came in at a disappointing 1.2% rate. The growth rate was buoyed by personal consumption, which grew 4.2% over the quarter, but it was dragged down by reduced business investment, largely due to pairing back of inventories and declining government spending. Some explanations for such weak investment data include that companies overstocked inventories in the first half of 2015 and that energy firms, which have been hurt by low oil prices, have generally curtailed new investment.

Domestic equity returns in July were positive, with the benchmark S&P 500 index rising 3.56%, which brings its year-to-date return to 6.34%. For the month both small-cap stocks and technology stocks outperformed the broader market with the Russell 2000 (a small cap stock index) growing 5.90% and the NASDAQ composite (a technology stock index) rising 6.60%. For the year both indexes are positive, with the Russel up 7.40% and the NASDAQ up 3.09%. As of the end of the month 63% of companies in the S&P 500 had reported earnings for the second quarter, and FactSet, a data provider, estimates that earnings will decline 3.8% for the quarter. Earnings declines were led by the energy and

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materials sectors, which have been hurt by persistently low commodity prices. Although this decline is smaller than predicted going into earnings season, it would still be the fifth consecutive quarter of year-over-year declines in earnings, and it is especially discouraging given that weak business investment has already been weighing on economic growth.

International stocks were also positive in July with the MSCI EAFE index rising 4.69% for the month on a local currency basis, but for the year it is down 4.75%. When translated into dollars, the index rose 5.01% since the dollar declined modestly over the course of the month. In the middle of the month, the International Monetary Fund (IMF) cut its global growth forecast by 0.1% to 3.4% due to the uncertainty introduced into the macroeconomic environment by the U.K.'s unexpected decision to leave the European Union. U.K. stocks appreciated during July with the multinational dominated FTSE 100 rising 3.38% for the month and the more locally focused FTSE 250 rising 6.22%. Many expected the Bank of England to cut interest rates at its July meeting, but the central bank held rates steady, saying it was waiting on more data. Since that meeting, economic data has generally been negative, showing that manufacturing, service-sector, and construction activity all contracted sharply in July, and it is considered likely the Bank of England will cut rates at its meeting in early August. Stocks also rose in Europe's largest economy with the German DAX index appreciating 6.79% in July. The Bundesbank, Germany's central bank, projected that the German economy will rebound in the third quarter after what appears to be a weak second quarter and that the impact from Brexit would be limited. In Japan, the Nikkei rose 6.38% in July. Japan has been attempting to combat deflationary pressures for years, and last month it announced additional monetary and fiscal stimulus measures. Emerging market stocks also rose in July with the MSCI Emerging Markets index growing 4.69%.

Fixed income prices generally rose this month. The yield on the benchmark 10-year Treasury note ended the month slightly below where it started the month, moving from 1.49% to 1.46%, and it hit an all-time historic low of 1.357% earlier in the month. Both rate sensitive and credit sensitive fixed income outperformed the broader bond market, which as measured by the Barclays U.S. Aggregate Bond index returned 0.63%. The Barclays Long

Term U.S. Treasury index returned 2.24% and the Barclays U.S. Corporate High Yield index grew 2.70%.

Commodity returns for July were mixed. The benchmark Reuters/Jefferies CRB index declined 6.00%, although for the year it is still positive with a 2.76% gain. Oil prices declined relatively significantly this month with the WTI crude spot price moving down 14.47% from $48.57 to $41.54 per barrel on oversupply concerns. Agricultural commodity prices generally declined this month as well. Conversely, precious metals and gold prices rose in July with gold moving from $1,321 an ounce at the beginning of the month to $1,342 by the end. Finally the VIX index, which is a measure of volatility, moved down to 11.87 at the end of July.

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PHONE: (631) 689-1515 • FAX: (631) 982-5465 • WWW.FIRSTFINANCIALAG.COM • INFO@FIRSTFINANCIALAG.COM • 348 MAIN STREET • EAST SETAUKET, NY 11733

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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.