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Dow Ends Best Week in a Month

Weekly Update – April 18, 2016

Stocks rallied again last week on better-than-expected earnings and some reassuring news about China's economy, giving the Dow its best weekly performance since mid-March.ⁱ For the week, the S&P 500 gained 1.62%, the Dow added 1.82%, and the NASDAQ grew 1.80%.ⁱⁱ

Earnings reports are trickling in and the news so far is not as bad as expected. Since advance estimates had prepared investors for very weak earnings reports, the weak reports we're seeing so far are being treated as victories. Out of 35 S&P 500 firms reporting in so far, total earnings are down 9.0% from Q1 2015 on 0.1% higher revenues with 71.4% beating their earnings estimates.ⁱⁱⁱ As earnings season continues to unfold in the weeks ahead, we may see more of the same, which could give markets room to rally. On the other hand, investors could take the weak earnings picture as a sign that the economy is struggling to produce sustainable growth.

After months of gloom on China's economy, a new report shows that China's economy grew 6.7% in the first quarter. Though this is down from the fourth quarter's 6.8% rate of growth, it's not as bad as investors had feared. U.S. investors treated the news as a win, though China experts are skeptical about the reliability of these statistics. Since China's ruling body has staked its political legitimacy on economic stability, officials have a lot of pressure to produce reassuring data. Overall, it's not likely that China's economic woes are over.^{iv}

The European Union gave us some headlines at the end of the week as Britain officially launched a campaign ahead of a referendum on leaving the EU on June 23rd. Current polls on a "Brexit" are evenly split with a significant number of people undecided on the issue.^v However, if Britain were to exit the EU, it would likely have a serious knock-on effect on markets, trade agreements, and currencies.^{vi}

In other international news, several major oil-producing nations met over the weekend to discuss coordinating oil output to stabilize prices. If they come to an agreement, oil prices might bounce higher and offer some relief to the beleaguered energy sector; however, closing a deal between a large group of producers with widely varying national interests will be tough.^{vii}

The week ahead is packed with earnings reports from 101 S&P 500 companies, including heavy hitters like Caterpillar [CAT], General Electric [GE], General Motors [GM], and Yum Brands [YUM].^{viii} Investors will also get a look at housing market data and see how well the sector is doing during the spring real estate season.

ECONOMIC CALENDAR:

Monday: Housing Market Index

Tuesday: Housing Starts

Wednesday: Existing Home Sales, EIA Petroleum Status Report

Thursday: Jobless Claims, Philadelphia Fed Business Outlook Survey

Friday: PMI Manufacturing Index Flash

Data as of 4/15/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	1.62%	1.80%	-1.23%	11.53%	6.14%
DOW	1.82%	2.71%	-1.19%	9.00%	6.07%
NASDAQ	1.80%	-1.38%	-1.45%	15.72%	11.23%
U.S. Corporate Bond Index	0.24%	4.77%	1.61%	5.70%	7.63%
International	3.49%	-1.99%	-11.67%	-0.46%	-0.86%
Data as 4/15/2016	1 yr.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.19%	0.37%	0.53%	1.22%	1.76%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance, S&P Dow Jones Indices, and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the SPUSCIG. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Retail sales fall unexpectedly. U.S. retail sales dropped last month as Americans cut back on purchases of cars, trucks, and other big-ticket items. The stumble suggests economic growth likely slowed last quarter.^{ix}

Weekly jobless claims fall. Weekly claims for new unemployment benefits fell by 13,000 to levels last seen in 1973. Claims for the prior week were also revised lower.^x

Consumer sentiment drops. A measure of consumer confidence fell for the fourth straight month last week, showing that volatility and recession talk are weighing on optimism.^{xi}

Federal Reserve survey shows economy still expanding. The Beige Book survey indicated that energy weakness and a slow manufacturing sector didn't hold the economy back too much between late February and early April.^{xii}

QUOTE OF THE WEEK



"If you're not willing to fail, you won't succeed."

– Shai Agassi

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Diversification does not guarantee profit nor is it guaranteed to protect assets.

The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce the index.

The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

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ⁱ <http://www.cnbc.com/2016/04/15/us-markets.html>

ⁱⁱ <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=03&b=11&c=2016&d=03&e=15&f=2016&g=d>

<http://finance.yahoo.com/q/hp?a=03&b=11&c=2016&d=03&e=15&f=2016&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=03&b=11&c=2016&d=03&e=15&f=2016&g=d&s=%5EIXIC%2C+&qI=1>

ⁱⁱⁱ <http://www.zacks.com/commentary/78320/making-sense-of-bank-results>

^{iv} <http://www.forbes.com/sites/timworstall/2016/04/15/chinas-gdp-growth-figures-at-6-7-for-q1-not-telling-us-what-were-hearing/#d0dc1624b763>

^v <http://www.economist.com/blogs/graphicdetail/2016/04/daily-chart-11>

^{vi} <http://www.bbc.com/news/business-36024492>

^{vii} <http://www.cnbc.com/2016/04/16/draft-doha-agreement-would-freeze-oil-output-until-october.html>

^{viii} <http://www.zacks.com/commentary/78320/making-sense-of-bank-results>

^{ix} <http://www.foxbusiness.com/markets/2016/04/13/march-retail-sales-unexpectedly-fell-0-3.html>

^x <http://www.foxbusiness.com/markets/2016/04/14/weekly-jobless-claims-fall-by-13000.html>

^{xi} <http://www.foxbusiness.com/markets/2016/04/15/consumer-sentiment-unexpectedly-slips-in-april.html>

^{xii} <http://www.fox13memphis.com/news/fed-survey-finds-us-economy-expanding-at-modest-pace/215160421>