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Stocks End Mixed as Tech Falls on Earnings

Weekly Update – April 25, 2016

Stocks ended last week mixed on earnings that were largely better than expected, though the tech sector disappointed. For the week, the S&P 500 gained 0.52%, the Dow grew 0.59%, and the NASDAQ lost 0.65%.ⁱ

First-quarter earnings reports drove a lot of market activity last week. Though analysts expect overall S&P 500 earnings to be negative for the fifth quarter in a row, the news so far is more about earnings surprises and fewer negative revisions to estimates. Given how low the bar was set by many corporate teams, it's not so unexpected to see positive surprises. With reports in from 132 S&P 500 members, overall earnings are down 7.9% on 1.1% lower revenues, though nearly three-quarters beat their earnings estimates.ⁱⁱ

However, the tech sector is another story. Tech stocks sold off after disappointing results from major players like Microsoft [MSFT] and Alphabet (Google's parent company) [GOOG]. Overall, much of the tech sector is painting a picture that is the inverse of the rest of the market — many companies are failing to rise to the expectations built over previous quarters of strong growth, disappointing investors.ⁱⁱⁱ

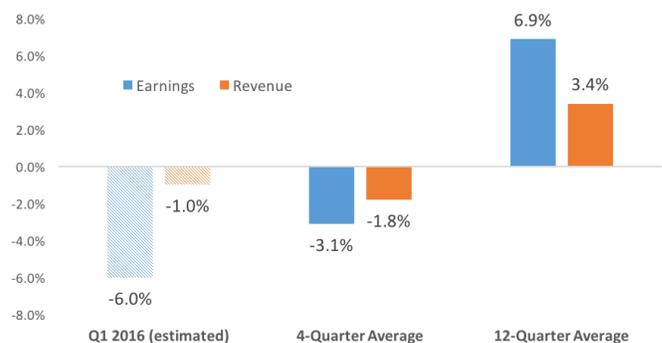
Will investors hold on to their optimism in the days ahead? We'll see.

The week ahead is packed with important economic data, including the first estimate of first-quarter economic growth and a measure of consumer sentiment. The Federal Reserve Open Market Committee also meets next week to discuss interest rates; though no one expects the Fed to raise rates this month, analysts are hoping for more clarity on the timing of future hikes.

Last week, a Reuters poll of economists found that about two-thirds expect a June rate increase while another 20% are betting on September. In March, the Fed acknowledged its concerns about global risks, stating that it expects two more rate hikes this year, only half as many as were planned in December.^{iv}

Earnings season also heats up next week with releases by 183 S&P 500 companies. By the end of the week, we'll have seen quarterly results from about 60% of the index and will have a much more complete picture of business activity last quarter.^v With all the reports coming out, we can expect some volatility in the days ahead as investors digest the latest data.

S&P 500 Tech Sector Growth Rates Compared



Source: Zack's Investment Research Inc.

ECONOMIC CALENDAR:

Monday: New Home Sales, Dallas Fed Mfg. Survey

Tuesday: Durable Goods Orders, S&P Case-Shiller HPI, Consumer Confidence

Wednesday: International Trade in Goods, Pending Home Sales Index, EIA Petroleum Status Report, **FOMC Meeting Announcement**

Thursday: GDP, Jobless Claims

Friday: Personal Income and Outlays, Employment Cost Index, Chicago PMI, Consumer Sentiment

Data as of 4/22/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	0.52%	2.33%	-0.78%	11.28%	5.95%
DOW	0.59%	3.32%	-0.19%	8.79%	5.87%
NASDAQ	-0.65%	-2.02%	-2.56%	14.79%	10.94%
U.S. Corporate Bond Index	-0.22%	4.54%	1.88%	5.62%	7.53%
International	1.26%	-0.76%	-10.85%	-0.61%	-1.09%
Data as 4/22/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.19%	0.38%	0.56%	1.37%	1.89%

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:

Housing starts drop. Groundbreaking on new houses dropped 8.8% in March, and permits for new home construction fell, indicating that homebuilders are expecting the sector to cool off.^{vi}

Existing home sales bounce 5.1% higher. Resales of existing homes rose more than expected in March, suggesting that the housing market had legs last quarter. Though monthly sales are volatile, growth was solid across all four U.S. regions.^{vii}

Jobless claims drop to multi-decade low. The number of weekly applications for new unemployment benefits dropped to the lowest level since 1973 in the latest sign that the labor market is steaming ahead despite slow economic growth.^{viii}

Oil prices post third week of gains. Benchmark crude oil prices rose again last week on expectations that the global oil supply glut is easing and demand will rise in the peak driving season.^{ix}

QUOTE OF THE WEEK



"The act of giving is the soul of living."

– Loreen Arbus

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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.

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Past performance does not guarantee future results.

You cannot invest directly in an index.

Consult your financial professional before making any investment decision.

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ⁱ <http://finance.yahoo.com/q/hp?s=%5EGSPC&a=03&b=18&c=2016&d=03&e=22&f=2016&g=d>

<http://finance.yahoo.com/q/hp?a=03&b=18&c=2016&d=03&e=22&f=2016&g=d&s=%5EDJI%2C+&q=1>

<http://finance.yahoo.com/q/hp?a=03&b=18&c=2016&d=03&e=22&f=2016&g=d&s=%5EIXIC%2C+&q=1>

ⁱⁱ <http://www.zacks.com/commentary/78985/making-sense-of-the-q1-earnings-reports>

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^{iv} <http://www.reuters.com/article/us-usa-fed-poll-idUSKCN0XJ1MX>

^v <http://www.zacks.com/commentary/78985/making-sense-of-the-q1-earnings-reports>

^{vi} <http://www.foxbusiness.com/markets/2016/04/19/march-housing-starts-drop-8-8.html>

^{vii} <http://www.foxbusiness.com/markets/2016/04/20/march-existing-home-sales-jump-5-1.html>

^{viii} <http://www.foxbusiness.com/markets/2016/04/21/weekly-jobless-claims-drop-to-42-12-year-low.html>

^{ix} <http://www.cnn.com/2016/04/21/oil-prices-set-for-one-of-the-biggest-weekly-rises-in-2016.html>