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Stocks Close Mixed on GDP Disappointment

Weekly Update – August 1, 2016

Stocks broke their four-week winning streak, closing mixed after the release of a surprisingly low estimate of second-quarter economic growth. For the week, the S&P 500 lost 0.07%, the Dow fell 0.75%, the NASDAQ grew 1.22%, and the MSCI EAFE added 2.36%.ⁱ

The preliminary estimate of Q2 Gross Domestic Product (GDP) growth showed that the economy grew a paltry 1.2% last quarter versus the 2.6% growth expected.ⁱⁱ Investors were understandably disappointed as they had hoped for a resurgence after a slow first quarter. Professional economists were also surprised. The New York Fed had forecasted GDP growth of 2.1% and the Atlanta Fed had predicted 2.3% growth.ⁱⁱⁱ Why the surprise?

Digging deeper into the data, we find that the disappointment came from an unexpected fall in business inventories. On the positive side, the drop may boost future economic growth as businesses rebuild their stockpiles. Consumer spending was strong, growing 4.2% over the previous 12 months, and accounting for nearly all the GDP growth we saw.^{iv}

So, though the headline number was a letdown, the underlying trends in consumer spending, labor market growth, and higher savings rates could set up a banner third and fourth quarter.

During last week's Federal Open Market Committee meeting, the Federal Reserve's monetary policy makers voted to hold rates steady, surprising no one. Citing recent economic data, the central bank said that "near-term risks to the economic outlook have diminished," setting the stage for the next rate hike.^v

Will rates increase in September? December? Or will the Fed wait until 2017? We don't know. Wall Street bets on future rate hikes suggest that most traders don't think the Fed will move until December if they don't wait until 2017.^{vi}

On the positive side, the Fed seems confident enough in economic growth to cut back on stimulus. On the negative side, speculation around the timing of future rate hikes will continue to be a major market theme this year and may stoke additional volatility.

This week, investors will be watching Friday's July labor market release and digesting more corporate earnings reports. We'll keep you informed.

ECONOMIC CALENDAR:

Monday: PMI Manufacturing Index, ISM Manufacturing Index, Construction Spending

Tuesday: Motor Vehicle Sales, Personal Income and Outlays

Wednesday: ADP Employment Report, ISM Non-Manufacturing Index, EIA Petroleum Status Report

Thursday: Jobless Claims, Factory Orders

Friday: Employment Situation, International Trade

Data as of 7/29/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.07%	6.34%	3.08%	13.64%	7.00%
DOW	-0.75%	5.78%	3.84%	10.36%	6.43%
NASDAQ	1.22%	3.09%	0.99%	17.46%	14.65%
U.S. Corporate Bond Index	0.54%	8.80%	8.81%	5.71%	8.00%
International	2.36%	-1.58%	-10.14%	0.11%	-0.85%
Data as of 7/29/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.19%	0.38%	0.50%	1.03%	1.46%

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:

Weekly jobless claims rise. The number of Americans filing claims for new unemployment benefits rose by 14,000, but the underlying trend still shows strength in the labor market.^{vii}

Consumer sentiment drops in July. A measure of how consumers feel about the U.S. economy slipped as worries about the Brexit and the presidential election weighed on Americans.^{viii}

June new home sales surge. Sales of new single-family homes rose to the highest levels in nearly 8-1/2 years. Sales were up 25.4% over June 2015, indicating that the housing market may be gaining momentum.^{ix}

Durable goods plunge in June. Orders for long-lasting manufactured goods dropped, indicating weak overseas demand is affecting U.S. factories. Economists had predicted a 1.4% decline over June, but orders for goods like aircraft, appliances, and machinery actually fell 4.0%.^x

QUOTE OF THE WEEK



“Eighty percent of success is showing up.”

–Woody Allen

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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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ⁱ <http://finance.yahoo.com/quote/%5EGSPC/history?period1=1469160000&period2=1469764800&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1469160000&period2=1469764800&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1469160000&period2=1469764800&interval=1d&filter=history&frequency=1d>

<https://www.msci.com/end-of-day-data-search>

ⁱⁱ <http://www.cnbc.com/2016/07/29/us-advance-q2-2016-gross-domestic-product.html>

ⁱⁱⁱ https://www.newyorkfed.org/medialibrary/media/research/policy/nowcast/nowcast_2016_0729.pdf?la=en

<https://www.frbatlanta.org/-/media/Documents/cqer/researchcq/gdpnow/RealGDPTrackingSlides.pdf>

^{iv} <http://www.cnbc.com/2016/07/29/us-advance-q2-2016-gross-domestic-product.html>

^v <http://www.bloomberg.com/news/articles/2016-07-27/fed-begins-crawl-toward-rate-hike-as-near-term-risks-diminish>

^{vi} <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html> [Accessed July 31, 2016]

^{vii} <http://www.foxbusiness.com/markets/2016/07/28/weekly-jobless-claims-rise-by-14000.html>

^{viii} <http://www.foxbusiness.com/markets/2016/07/29/consumer-sentiment-slips-in-july.html>

^{ix} <http://www.foxbusiness.com/markets/2016/07/26/june-new-home-sales-jump-3-5.html>

^x <http://www.foxbusiness.com/markets/2016/07/27/june-durable-goods-orders-plunge.html>