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NASDAQ Posts Eighth Week of Gains

Weekly Update – August 22, 2016

The S&P 500 and Dow ended last week slightly lower, but the NASDAQ posted an eighth straight week of gains for the first time since 2010.ⁱ For the week, the S&P 500 lost 0.01%, the Dow fell 0.13%, the NASDAQ gained 0.10%, and the MSCI EAFE lost 0.64%.ⁱⁱ

What is the Fed thinking? Minutes from the July Federal Reserve Open Market Committee meeting showed that officials are split about the economic outlook and when to raise interest rates. Hawkish rhetoric from Fed members who favor a rate hike soon could push the central bank into raising rates as early as September. More dovish officials aren't convinced that tepid inflation will rise to the Fed's 2.0% objective and favor a wait-and-see approach to raising interest rates.ⁱⁱⁱ

After several months of strong labor market gains, some economists think the economy is close to full employment and central bankers should move soon to put on the brakes by raising interest rates. If the economy gets overheated, prices could rise too much and push the economy into a boom/bust cycle that federal officials are anxious to avoid.

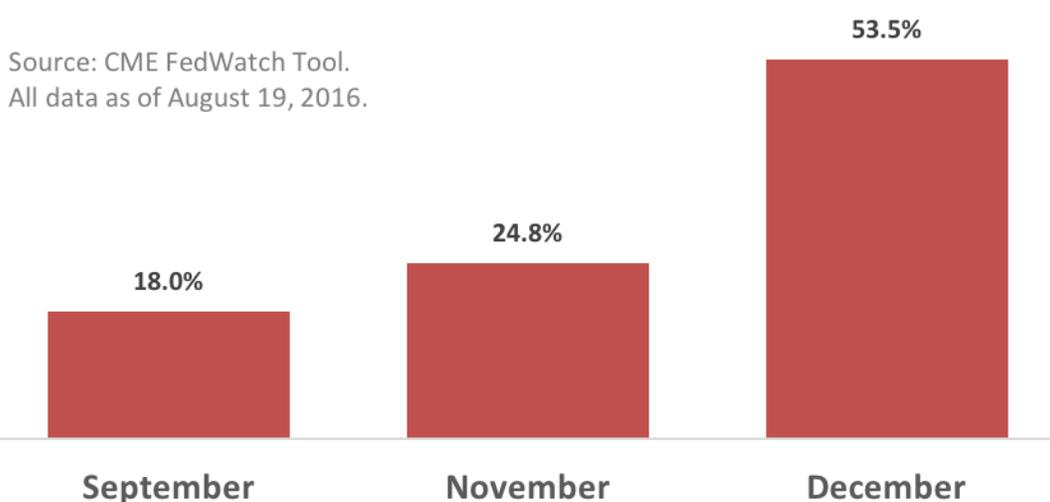
While a few years of outsized growth might sound nice after the years of slow expansion we've experienced, the economic hangover that might follow wouldn't be pleasant at all. That's why central banks like the Fed act to smooth out these economic cycles by lowering interest rates when times are tough (boosting investment through cheap credit) and raising them when growth picks up again (curbing excessive optimism by making credit more expensive).

The timing of rate increases is tricky, and the macroeconomic relationships that govern these decisions are complex and open to interpretation. Hence why some of the best economists in the world can't agree on when to pull the trigger.

Which group will win out at the Fed? Since the Fed has been reluctant to jump the gun on interest rates, we don't see a rate hike coming next month. However, the Fed might decide to surprise us.

Currently, Wall Street traders judge the odds of a September hike at just 18.0%. However, traders think the Fed is likely to raise interest rates in 2016, judging by December's rate probabilities.^{iv} Will the Fed move soon? We'll keep you informed.

Wall Street Probability of Higher Rates at Future FOMC Meetings



This week is packed with economic data that will show us how the housing and manufacturing sectors are doing. We'll also get a second look at second-quarter economic growth in Friday's Gross Domestic Product report. Stay tuned for next week's update.

ECONOMIC CALENDAR:

Tuesday: New Home Sales

Wednesday: PMI Manufacturing Index Flash, Existing Home Sales, EIA Petroleum Status Report

Thursday: Durable Goods Orders, Jobless Claims

Friday: GDP, International Trade in Goods, Corporate Profits, PMI Services Flash, Consumer Sentiment

Data as of 8/19/2016	1-Week	Since 1/1/16	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.01%	6.85%	5.01%	18.88%	6.77%
DOW	-0.13%	6.47%	6.94%	14.30%	6.30%
NASDAQ	0.10%	4.61%	4.37%	24.74%	14.21%
U.S. Corporate Bond Index	-0.10%	8.58%	8.12%	5.32%	7.77%
International	-0.64%	-0.96%	-6.16%	3.28%	-1.00%
Data as of 8/19/2016	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.27%	0.44%	0.59%	1.17%	1.58%

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:

Inflation remains flat. Consumer prices remained unchanged in July as gasoline prices fell for the first time in months. Modest inflation may reduce the chances of future interest rate increases by the Fed.^v

Housing starts surge to five-month high. Groundbreaking on new residential projects rose in July, potentially boosting second-quarter economic growth numbers.^{vi}

Weekly jobless claims fall. The number of Americans filing new claims for unemployment benefits dropped last week, suggesting the labor market continues to strengthen and approach full employment.^{vii}

Industrial production rises more than expected. A measure of industrial sector production (including hard industries like mining, manufacturing, and utilities) increased by 0.7% versus the 0.3% rise expected.^{viii}



QUOTE OF THE WEEK

“Every child is an artist. The problem is how to remain an artist once he grows up.”

–Pablo Picasso

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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.

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://www.cnbc.com/2016/08/19/us-markets.html>

ⁱⁱ <http://finance.yahoo.com/quote/%5EGSPC/history?period1=1470981600&period2=1471586400&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EDJI/history?period1=1470981600&period2=1471586400&interval=1d&filter=history&frequency=1d>

<http://finance.yahoo.com/quote/%5EIXIC/history?period1=1470981600&period2=1471586400&interval=1d&filter=history&frequency=1d>

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

ⁱⁱⁱ <http://www.usnews.com/news/articles/2016-08-17/fed-minutes-show-rate-hike-momentum-as-september-meeting-looms>

^{iv} <http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html> Accessed August 19, 2016.

^v <http://www.foxbusiness.com/markets/2016/08/16/consumer-prices-were-unchanged-in-july.html>

^{vi} <http://www.foxbusiness.com/markets/2016/08/16/july-housing-starts-rose-2-1-in-july.html>

^{vii} <http://www.foxbusiness.com/markets/2016/08/18/weekly-jobless-claims-fall-by-4000.html>

^{viii} <http://www.cnbc.com/2016/08/16/us-industrial-production-july-2016.html>