

Market Week: June 19, 2017

The Markets (as of market close June 16, 2017)

The benchmark indexes listed here seemed to follow last week's mixed economic news. While the Fed raised interest rates based on what it perceived as favorable labor and economic reports, inflation is definitely receding and the housing market has stalled. Equities were mixed as the small caps of the Russell 2000 and the tech stocks of the Nasdaq fell back, while the large caps of the S&P 500 and Dow posted marginal gains. Rising interest rates were offset by lower inflationary trends, which may account for the lack of movement in the 10-year Treasuries.

The price of crude oil (WTI) fell again last week, closing at \$44.67 per barrel, down from the prior week's closing price of \$45.90 per barrel. The price of gold (COMEX) decreased last week, closing at \$1,255.20 by late Friday afternoon, down from the prior week's price of \$1,268.80. The national average retail regular gasoline price decreased to \$2.366 per gallon on June 12, 2017, \$0.048 lower than the prior week's price and \$0.033 less than a year ago.

Market/Index	2016 Close	Prior Week	As of 6/16	Weekly Change	YTD Change
DJIA	19762.60	21271.97	21384.28	0.53%	8.21%
Nasdaq	5383.12	6207.92	6151.76	-0.90%	14.28%
S&P 500	2238.83	2431.77	2433.15	0.06%	8.68%
Russell 2000	1357.13	1421.71	1406.73	-1.05%	3.65%
Global Dow	2528.21	2782.75	2764.97	-0.64%	9.36%
Fed. Funds target rate	0.50%-0.75%	0.75%-1.00%	1.00%-1.25%	25 bps	50 bps
10-year Treasuries	2.44%	2.16%	2.15%	-1 bps	-29 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Week's Headlines

- Despite declining inflation that continues to run below the Fed's 2.0% target rate, the Federal Open Market Committee raised the range for the federal funds rate 0.25% to 1.00%-1.25%. The Committee based its decision on the expectation that the labor market will continue to strengthen, and the fact that economic activity has been rising moderately so far this year. The Committee further noted that the unemployment rate has declined, household spending has picked up in recent months, and business fixed investment has continued to expand. The Fed indicated that "inflation on a 12-month basis is expected to remain somewhat below 2% in the near term but to stabilize around the Committee's 2% objective over the medium term." In addition, the Fed proposed to slowly cull its long-term asset holdings, consisting primarily of Treasuries and mortgage securities by letting them mature without reinvestment. This action will also likely push up long-term interest rates.
- In a sign of receding inflationary pressure, consumer prices fell 0.1% in May, according to the latest

Key Dates/Data Releases

6/21: Existing home sales

6/23: New home sales

report from the Bureau of Labor Statistics. A 2.7% decrease in the energy index contributed to the monthly decrease in the CPI. Over the last 12 months, the CPI has risen 1.9%, a smaller increase than the 2.2% gain over the 12 months ended in April. The index for all items less food and energy rose 0.1% in May, as it did in April. The index for all items less food and energy rose 1.7% over the 12 months ended in May. Comparatively, the index for all items less food and energy increased 1.9% over the 12 months ended in April.

- On the heels of May's drop in the Consumer Price Index, retail sales (a measure of what consumers are spending at retailers) decreased 0.3% in May from the previous month. This is the largest monthly decrease since January 2016. Sales at department stores fell 1.0%, auto sales declined 0.2%, sales at gasoline stations declined 2.4%, and restaurant sales dipped 0.1%. Since last May, retail sales are up 3.8%, which is below the 4.6% increase in retail sales over the 12 months ended in April. Nonstore (online) retail sales increased 0.8% for the month, and are up 10.2% since May 2016.
- Producer prices showed no movement in May compared to the prior month, according to the Producer Price Index. For the year, overall producer prices are up 2.4%, while prices less food and energy have increased 2.1%. Production costs may have decreased with energy prices falling 3.0% in May, allowing producers to realize higher margins (profits) without actually increasing prices for goods and services.
- Eight months into the government's fiscal year, the budget deficit sits at \$432.9 billion, which is 6.8% higher than the deficit for the same period last fiscal year. While government receipts are up 1.4% from a year ago, spending is 2.3% higher. For the 2017 fiscal year, the government has spent \$390 billion on defense, \$623 billion on Social Security, and \$368 billion on Medicare.
- Prices for imports and exports fell in May, according to the latest report from the Bureau of Labor Statistics. Import prices declined 0.3% in May after increasing 0.2% in April. Lower fuel prices drove the decrease last month. The price index for U.S. imports rose 2.1% for the 12 months ended in May. Export prices declined 0.7% in May following a 0.2% advance in April. The price index for U.S. exports rose 1.4% for the year ended in May.
- Industrial production was unchanged in May following a noteworthy 1.1% increase in April. Total industrial production in May was 2.2% above its year-earlier level. A negative in the report is in the manufacturing sector, which fell 0.4% in May. This drop was offset by a 1.6% gain in mining and a 0.4% bump in utilities. Capacity utilization for the industrial sector edged down 0.1 percentage point in May to 76.6%, a rate that is 3.3 percentage points below its long-run average.
- The housing sector has been slowing of late, and May's housing starts report adds to that trend. Housing starts in May were 5.5% below the revised April estimate and are 2.4% below the May 2016 rate. Building permits were 4.9% off their April rate and are now 0.8% below the rate for May 2016. Housing completions are up 5.6% for the month and 14.6% above the May 2016 rate. Accelerating housing completions coupled with receding starts and permits will likely lead to shrinking inventory and possibly rising prices.
- In the week ended June 10, the advance figure for seasonally adjusted initial claims for unemployment insurance was 237,000, a decrease of 8,000 from the previous week's unrevised level. The advance seasonally adjusted insured unemployment rate remained at 1.4% for the ninth consecutive week. For the week ended June 3, there were 1,935,000 insured unemployed, an increase of 6,000 from the previous week's level, which was revised up 12,000.

Eye on the Week Ahead

This week focuses on the latest information from the housing sector. Both new home sales and sales of existing homes have fallen recently, so it will be interesting to see if sales picked up the pace in May.

Data sources: News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. Market data: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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