NCA Financial Planners
Kevin Myeroff, CFP®
6095 Parkland Boulevard
Suite 210
Cleveland, OH 44124
440-473-1115
mbahr@ncafinancial.com
www.ncafinancial.com

Market Month: August 2017

The Markets (as of market close August 31, 2017)

Equities in August saw many peaks and valleys throughout the month, finally rallying at the end of the month. Strong second-quarter gross domestic product (GDP) figures, steady job gains, and increased consumer spending sent stocks higher, despite stagnant inflation and heavy personal and financial losses caused by Hurricane Harvey. The large caps of the S&P 500 and Dow posted marginal monthly gains with the tech-heavy Nasdaq leading the way closing August up 1.27%. The small caps of the Russell 2000 continued to lag, falling 1.39% from its July closing value. The Global Dow inched down 0.32% for the month, but is still strong year-to-date, up over 12.50%. The prices of 10-year Treasuries climbed, sending yields lower.

By the close of trading on August 31, the price of crude oil (WTI) was $47.07 per barrel, down from the July 31 price of $50.18 per barrel. The national average retail regular gasoline price was $2.399 per gallon on August 28, up from the July 31 selling price of $2.352 and $0.162 more than a year ago. The price of gold increased by the end of August, closing at $1,327.20 on the last trading day of the month, up $51.60 from its July 31 price of $1,275.60.

Market/Index	2016 Close	Prior Month	As of August 31	Month Change	YTD Change
DJIA	19762.60	21891.12	21948.10	0.26%	11.06%
NASDAQ	5383.12	6348.12	6428.66	1.27%	19.42%
S&P 500	2238.83	2470.30	2471.65	0.05%	10.40%
Russell 2000	1357.13	1425.14	1405.28	-1.39%	3.55%
Global Dow	2528.21	2856.10	2846.93	-0.32%	12.61%
Fed. Funds	0.50%-0.75%	1.00%-1.25%	1.00%-1.25%	0 bps	50 bps
10-year Treasuries	2.44%	2.29%	2.12%	-17 bps	-32 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 Month's Economic News

- **Employment:** The second half of the year began with a strong showing in the employment sector. In July, job growth expanded by 209,000 and the unemployment rate slid 0.1 percentage point to 4.3%, representing about 7.0 million unemployed persons. Employment growth has averaged 184,000 per month thus far this year, in line with the average monthly gain of 187,000 in 2016. Notable employment gains occurred in health care, professional and business services, and food services and drinking places. The labor participation rate was essentially unchanged at 62.9%. The average workweek for all employees was unchanged from June at 34.5 hours. Average hourly earnings rose by $0.09 to $26.36. Over the year, average hourly earnings have risen by $0.65, or 2.5%.
- **FOMC/interest rates:** The Federal Open Market Committee did not meet in August, so the target

Key Dates/Data Releases

9/1: Employment situation

9/6: International trade

9/12: JOLTS

9/13: Producer Price Index, Treasury budget

9/14: Consumer Price Index

9/15: Retail sales, industrial production

9/19: Housing starts, import and export prices

9/20: FOMC meeting, existing home sales

9/26: New home sales

9/27: Durable goods orders

9/28: GDP, international trade in goods

9/29: Personal income and outlays

federal funds rate range remained at 1.00%-1.25%. If upward price inflation continues to stagger, the Committee may be hard-pressed to raise interest rates when it next meets in mid-September.

- **GDP/budget:** The gross domestic product expanded over the second quarter at an annual rate of 3.0%, according to the second estimate from the Bureau of Economic Analysis. The first-quarter GDP grew at an annualized rate of 1.2%. Consumer and government spending and business investment were positives in the report, offset by deceleration in residential investment and net exports. As to the government's budget, the federal deficit for July was $42.9 billion, $47.3 billion lower than the June deficit. Through the first 10 months of the fiscal year, the deficit sits at $566 billion, which is about 10.6% above the deficit over the same period last year.
- **Inflation/consumer spending:** Upward price inflation continues to be weak. Consumer spending, on the other hand, is increasing. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up only 0.1% in July. The core PCE (excluding energy and food) price index also inched ahead 0.1% for the month. Personal (pre-tax) income climbed 0.4% and disposable personal (after-tax) income increased 0.3% from the prior month. With increased income, consumer expenditures rose, climbing 0.3% in July.
- The prices companies receive for goods and services fell 0.1% in July from June, according to the Producer Price Index. Year-over-year, producer prices have increased 1.9%. Over 80% of the July decrease in prices is attributable to services, which fell 0.2%. Prices for goods edged down 0.1%. Prices less food, energy, and trade were unchanged in July from the prior month and are up 1.9% over the last 12 months.
- Consumer prices rose a scant 0.1% in July, after recording no change in June. For the 12 months ended in July, consumer prices are up 1.7%, a mark that remains below the Fed's 2.0% target for inflation. Core prices, which exclude food and energy, edged up 0.1% in July, the same increase as June, and are up 1.7% year-over-year.
- **Housing:** Scant inventory and rising prices have slowed sales of new and existing homes in July. Total existing-home sales slipped 1.3% for the month and are up only 2.1% from a year ago. The July median price for existing homes was $258,300, which is 2.1% below June's median price of $263,800 but up 6.2% from the price last July. Housing inventory declined 1.0% for the month and is now 9.0% lower than a year ago. The Census Bureau's latest report reveals sales of new single-family homes fell 9.4% in July to an annual rate of 571,000 — down from June's upwardly revised rate of 630,000. The median sales price of new houses sold in July was $313,700 ($310,800 in June). The average sales price was $371,200 ($379,500 in June). The seasonally adjusted estimate of new houses for sale at the end of July was 276,000. This represents a supply of 5.8 months at the current sales rate, which is an increase in inventory from May and June (5.2 months).
- **Manufacturing:** Industrial production expanded by 0.2% in July following an increase of 0.4% in June, according to the Federal Reserve's monthly report on Industrial Production and Capacity Utilization. Manufacturing output edged down 0.1% after increasing 0.2% in June. Contributing to the recession in manufacturing output was a drop in production of motor vehicles and parts, which decreased 3.5%. Mining output was again strong, posting a gain of 0.5% in July after increasing 1.6% in June. The index for utilities rose 1.6% after remaining stagnant in June. Capacity utilization for the industrial sector was unchanged in July to 76.7%, a rate that is 3.2 percentage points below its long-run average. New orders for durable goods fell in July on the heels of a steep drop in aircraft orders. The Census Bureau reports new orders decreased $16.7 billion, or 6.8%, from June, which saw new orders increase 6.4%. However, excluding the transportation segment, new durable goods orders increased 0.5%. Orders for core capital goods (excluding defense and transportation) jumped 0.4% in July. Over the 12 months ended in July, core capital goods orders are up 3.5%.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap widened 1.7% in July over June. The overall trade deficit was $65.1, up $1.1 billion from the prior month. The total volume of exports of goods decreased $1.6 billion to $127.1 billion. Imports of goods fell $0.5 billion to $192.2 billion. Prices for U.S. imports edged up 0.1% in July, led by higher fuel prices, which more than offset lower prices for nonfuel imports. The July increase in import prices followed declines in each of the two previous months. U.S. export prices advanced 0.4% in July, after decreasing 0.2% in June.
- **International markets:** In anticipation of its departure from the European Union, the United Kingdom's Department for Business, Energy and Industrial Strategy published a set of reforms aimed at strengthening the country's image as a leader in corporate governance. Negotiations between the UK and the EU continued with nothing of substance resolved to date. China's stocks surged on strong corporate earnings reports. Otherwise, world markets were mixed, particularly at the end of August as investors wait for the economic impact of Hurricane Harvey.
- **Consumer sentiment:** The Conference Board Consumer Confidence Index® for August rose to 122.9,

up from July's revised 120.0. Consumers expressed growing confidence in current economic conditions, but were reticent about future economic prospects.

Eye on the Month Ahead

Investors will look for stock values to continue to climb in September following a bumpy August. The month kicks off with the jobs report for August, which comes out the first day of September. The FOMC meets in September following a break last month. Slowing inflation has tempered the Committee's push for higher interest rates. The final second-quarter GDP figures come out at month's end.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: 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). 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. 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.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 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. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

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