

MONTHLY ECONOMIC UPDATE

March 2016

MONTHLY QUOTE

“Better by far you should forget and smile than you should remember and be sad.”

– Christina Rossetti

MONTHLY TIP

When starting a business, it is a good idea to have cash savings that will pay for 6 or more months of living expenses in case things get rough for the new venture.

MONTHLY RIDDLE

I have no point, but I'm not a mistake. Move me back and forth, and I'll fix your errors. What am I?

Last month's riddle:

They can hurt without moving, poison without touching, bear truth and lies. What are they?

Last month's answer:

Words.

THE MONTH IN BRIEF

After a miserable January, the Dow Jones Industrial Average managed to gain 0.30% in February. While stock markets around the world struggled to advance, gold and oil rallied to a remarkable degree. U.S. economic indicators offered some bright spots, but also some disappointments. Housing indicators were mixed. Still, Wall Street seemed to show a tiny bit of optimism by month's end (or maybe it was simply reduced pessimism). Investors hoped there would soon be less correlation between oil prices and stock prices.¹

DOMESTIC ECONOMIC HEALTH

Judging from January's personal spending report, it appeared consumers were finally starting to spend some of the money they had been saving thanks to lower gas prices. The Bureau of Economic Analysis reported that consumer spending improved 0.5% in the first month of the year, as did consumer wages. January core retail sales rose 0.6%, though the headline advance was only 0.1%.^{2,3}

According to the Bureau of Labor Statistics, the core Consumer Price Index rose 0.3% in January; the core Producer Price Index ascended 0.4%. The headline number was smaller in each case (0.1% for the PPI, 0.0% for the CPI), but the real story was the 2.2% annualized rise for core consumer prices. The core PPI was even up 0.6% in 12 months.⁴

Hiring did moderate a little in January. Employers added 151,000 jobs in that month, the Labor Department noted; the jobless rate dipped to 4.9% with the U-6 rate including the underemployed at 9.9%. America had not seen unemployment at less than 5% since February 2008. Across the year ending in January, the economy had created an average of more than 200,000 jobs per month.⁵

The Conference Board's January index fell 5.6 points and hit 92.2, a 7-month low. The University of Michigan's consumer sentiment index fell just 0.3 points month-over-month to 91.7.^{2,6}

Unexpected improvement took place in the Institute for Supply Management's manufacturing PMI. Economists polled by MarketWatch forecast a February reading of 48.5 for the indicator; instead, it came in at 49.5. In related good news, the Federal Reserve said U.S. industrial output had increased 0.9% in January.^{7,8}

As for the services sector, ISM's most recent non-manufacturing PMI (January) declined 2.3 points to 53.5%, still indicating sector expansion. (The reading, however, was a 23-month low.) Durable goods orders were up 4.9% in January, 1.8% minus transportation orders.^{2,9}

GLOBAL ECONOMIC HEALTH

On February 16, four OPEC member nations (Saudi Arabia, Qatar, Russia, and Venezuela) reached a preliminary accord to limit their oil production to the levels it had reached in January. OPEC output topped 33 million barrels per day in the first month of the year, a 20-year peak. As a result, the price of WTI crude regained the \$30 level. By month's end, Saudi Arabia was already capping its monthly crude production.^{10,11}

For the fifth time in 12 months, China lowered its requirements on bank cash reserves. Investors hoped for further stimulus, as China's latest official factory PMI and Markit/Caixin factory PMI both showed declines, coming in respectively at 49.0 and 48.0 in February. The nation's official non-manufacturing PMI also fell 0.8 points in February to 52.7.^{11,12}

The eurozone unemployment rate fell to 10.3% in January, marking the third consecutive monthly decline and the lowest jobless rate seen since August 2011. Unfortunately, the eurozone's deflation risk increased in February as consumer prices were down 0.2% year-over-year, leading some economists to wonder if the European Central Bank might opt for even more bond buying. Markit's eurozone manufacturing PMI fell 1.1 points in February to 51.2.¹³

WORLD MARKETS

In Europe, major indices had a tough February. The STOXX 600 lost 2.44%, the DAX 3.09%, the CAC 40 1.44%, the Europe Dow 1.75%, the FTSE MIB 5.54%, and the IBEX 35 4.02%. Two notable exceptions were Russia's RTS, which rose 3.15%, and the United Kingdom's FTSE 100, which eked out a 0.22% gain.¹

Two Asia Pacific benchmarks also had a rough go of it: the Sensex fell 7.51%; the Nikkei 225, 8.51%. The Shanghai Composite lost 1.81% on the month; the Hang Seng, 2.90%; the S&P/ASX 200, 2.49%; the Asia Dow, 0.73%; On the other hand, Korea's Kospi posted a 0.24% February gain and Indonesia's Jakarta Composite rose 3.38% for the month.¹

There was better news over in the far west. The Bovespa advanced 5.91%; the IPC All-Share, 0.19%; the TSX Composite, 0.30%; the Dow Jones Americas, 0.02%. Looking at three of the key global benchmarks, the MSCI World index lost 0.96% last month and the Global Dow, 0.94%; the MSCI Emerging Markets index held its February loss to 0.28%.^{1,14}

COMMODITIES MARKETS

WTI crude rallied 30% in 11 trading days to close out the month, and yet its monthly advance was still only 0.47%. On February 29, it settled at a NYMEX price of \$33.90. Heating oil futures rose 2.98% in February. Those movements were minor compared to the huge monthly swings for unleaded gasoline and natural gas: the former rallied 18.81% while the latter sank 26.03%.¹⁵

Gold futures soared 11.00% for the month to end February at \$1,239.30 on the COMEX, and silver wrapped up the month at \$14.90 thanks to a 4.45% gain of its own. Copper finished the month 3.13% higher, platinum 4.84% higher. Turning toward the greenback, the U.S. Dollar Index gave back 1.38% for the month.^{15,16}

Sugar and cocoa stood out among major crop commodities last month. Sugar futures advanced 8.07%; cocoa futures, 6.65%. Losses hit corn (4.78%), wheat (7.20%), soybeans (3.18%), cotton (3.84%), and coffee (2.66%).¹⁵

REAL ESTATE

February saw two unexpectedly positive real estate developments: news that existing home sales had maintained their pace in January despite low expectations, and a significant decline in home loan interest rates. A National Association of Realtors report showed resales up 0.4% for the first month of the year, putting their seasonally adjusted annualized pace near a 6-month high at 5.47 million. NAR's pending home sales index, however, fell 2.5% in January. Census Bureau data showed a 9.2% January slump for new home sales, taking their year-over-year advance down to 5.2%.^{17,18,19}

A glance at Freddie Mac's February 25 Primary Mortgage Market Survey shows average interest of 3.62% for the 30-year FRM, 2.93% for the 15-year FRM, and 2.79% for the 5/1-year ARM. Compare these numbers to the results of the January 28 survey: 3.79% for the 30-year fixed, 3.07% for the 15-year FRM, and 2.90% for the 5/1-year ARM.¹⁹

Home prices rose 5.7% in 2015 by the barometer of the 20-city S&P/Case-Shiller home price index, which was unchanged in its December edition. January saw declines in both housing starts (3.8%) and building permits (0.2%) according to the Census Bureau.^{2,8}

LOOKING BACK...LOOKING FORWARD

On February 29, the Dow closed at 16,516.50, the S&P 500 at 1,932.23, the Nasdaq at 4,557.95, and the Russell 2000 at 1,033.90. Across February, the Dow was the lone gainer, up 0.30%; the Russell lost 0.14%, the S&P 0.41%, and the Nasdaq 1.21%. February brought another advance for the CBOE VIX, which gained 1.73% to a month-end close of 20.55. The standout February performance came from the PHLX Gold/Silver index, which jumped 39.07% as precious metals prices climbed.¹

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-5.21	-8.91	+7.02	+5.02
NASDAQ	-8.98	-8.17	+12.76	+9.98
S&P 500	-5.47	-8.19	+9.12	+5.09
REAL YIELD	2/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.32%	0.17%	1.03%	2.02%

Sources: wsj.com, bigcharts.com, treasury.gov - 2/29/16^{1,20,21}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

In January and February, the correlation between oil prices and stock prices seemed remarkably pronounced. In March, we will hopefully witness it weaken. We have seen signs that the economy is gaining momentum, or at least not stalling out: the recent half-percent rise in personal spending, the improved Q4 GDP reading, the resilience in existing home sales, the February ISM manufacturing PMI that came in above expectations. Saudi Arabia's recent pledge to try and stabilize the oil market may have helped oil find a bottom. China's reduction of capital ratios for its banks may have stimulated a bit greater appetite for risk among institutional investors. So, with these encouraging developments in place, March might turn out to be a calmer and more bullish month on Wall Street.¹¹

UPCOMING ECONOMIC RELEASES: The roll call of major economic indicators for the rest of the month is as follows: the February Labor Department jobs report (3/4), January wholesale inventories (3/9), February retail sales, the February PPI, and January business inventories (3/15), a Federal Reserve interest rate decision, the February CPI, and also February industrial output, housing starts, and building permits (3/16), the preliminary University of Michigan consumer sentiment index for March (3/18), NAR's report on February existing home sales (3/21), February new home sales (3/23), February durable goods orders (3/24), the BEA's last assessment of Q4 GDP (3/25), February personal spending and pending home sales (3/28), the Conference Board's March consumer confidence index and the January S&P/Case-Shiller home price index (3/29), and then, arriving a little early, both the March ADP employment change report (3/30) and March's Challenger job-cut report (3/31). The University of Michigan's final March consumer sentiment index appears relatively late on April 1.

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The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The RTS Index (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The S&P/ASX 200 index is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's. The Asia Dow measures the Asia equity markets by tracking 30 leading blue-chip companies in the region. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The IDX Composite or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX). The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Mexican IPC index (Indice de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Dow Jones Americas Index measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The Global Dow is a 150-stock index of corporations from around the world created by Dow Jones & Company. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than

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