

## Commentary

June 1, 2015

### The Markets

Is it possible to have an economic optical illusion?

On Friday, the Commerce Department reported the U.S. economy contracted at an annualized rate of 0.7 percent during the first quarter of 2015. The Federal Reserve sees things slightly differently.

Previously, the Commerce Department had reported our gross domestic product (GDP), which is the value of all goods and services produced in the United States, had increased at an annualized rate of 0.2 percent during the first quarter. The estimate was weaker than economists had expected and caused some analysts to wonder whether the economic recovery was stalling.

Weak first quarter GDP has caused other analysts, including those at the Federal Reserve Bank of San Francisco who penned an article entitled, *The Puzzle of Weak First-Quarter GDP Growth*, to wonder whether a statistical anomaly is causing first quarter GDP growth to appear weaker than it really is. *Barron's* explained it like this:

“Since the expansion began in mid-2009, there have been six calendar quarters that have included the January-March quarter; for those six quarters, the average rate of growth has been just 0.4 percent. For the other 17 calendar quarters, growth has averaged 2.8 percent. One reason for this pattern seems to be faulty seasonal adjustment in the first quarter... In any case, if the same pattern persists in 2015, expect a rebound in the current quarter and through the second half of this year. And, based on data released so far, one source of the rebound would be a pickup in housing.”

The San Fran Fed report concluded, “There is a good chance that underlying economic growth so far this year was substantially stronger than reported.”

While GDP was revised downward last week, the core consumer price index (CPI), which is a measure of inflation that excludes food and energy, showed inflation increasing for the first four months of the year. If it continues apace, by year-end the CPI will rise above the 2 percent inflation target set by the Fed and will probably set the stage for an increase in the Fed funds rate.

Investors weren't thrilled with last week's news, and markets generally moved lower.

Data as of 5/29/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.9%	2.4%	9.8%	16.5%	14.5%	5.9%
Dow Jones Global ex-U.S.	-2.0	6.4	-2.3	9.7	6.0	3.7
10-year Treasury Note (Yield Only)	2.1	NA	2.5	1.7	3.3	4.0
Gold (per ounce)	-1.1	-0.7	-5.1	-9.0	-0.6	11.1
Bloomberg Commodity Index	-1.5	-3.2	-25.1	-8.4	-4.0	-3.9
DJ Equity All REIT Total Return Index	-1.1	-1.7	9.9	11.9	14.3	8.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**IF AMERICA'S GROWTH IS SLOWING**, the United States was *The Little Engine That Could* during 2014. We added three million jobs, unemployment fell to 5.6 percent, and GDP grew by 2.4 percent for the year. Unfortunately, despite the contentions of the San Francisco Federal Reserve's report, we appear to be losing momentum.

So, what happened?

*The Economist* reported a variety of factors have contributed to the slowdown. The U.S. dollar has gained 20 percent in value against the euro during the past year, which made exports more expensive. In fact, exports were down about 3 percent, year-over-year, in March. Also, oil prices fell, which knocked 0.8 percentage points off economic growth as investment in mining structures shrank. Finally, American consumers didn't spend as much as experts anticipated they would, despite lower oil prices. Lower-than-

expected spending may reflect weak wage growth.

While growth in the United States shows signs of slowing, the Eurozone's growth is accelerating. The region emerged from a double-dip recession in the spring of 2013, according to *The Economist*. Many large country's economies, including those of Spain and France, delivered relatively strong GDP growth during the first quarter of 2015. As a whole, the Eurozone grew by 0.4 percent during the quarter, outperforming the United States.

Why is the Eurozone doing so well?

The European Central Bank took a page from the Federal Reserve's playbook and began a round of quantitative easing (QE). QE has contributed to the euro losing value against the U.S. dollar, which has helped Eurozone exports. Also, consumers in the Eurozone have been spending the windfall created by lower oil prices.

Will the United States and the Eurozone be able to sustain positive economic growth? Only time will tell.

### **Weekly Focus – Think About It**

"There is nothing noble in being superior to your fellow men. True nobility lies in being superior to your former self.

*--Ernest Hemingway, American author*

\* QE is a government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market.

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\* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

\* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

\* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in 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.

\* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

\* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

\* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

\* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

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\* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

\* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

\* You cannot invest directly in an index.

\* Consult your financial professional before making any investment decision.

\* Stock investing involves risk including loss of principal.

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