



# Monthly Economic Update

*from Ray Castaldi, CLU, ChFC*

June 2015

## MONTHLY QUOTE

“In great affairs men show themselves as they wish to be seen; in small things they show themselves as they are.”

– *Nicholas Chamfort*

## MONTHLY TIP

When financial decisions are made out of impulse rather than practicality, there is often a downside or opportunity cost that closer examination would have revealed.

## MONTHLY RIDDLE

How many times can you subtract the number 9 from the number 36?

### Last month's riddle:

Its teeth are sharp and its spine is straight. It is not innately vicious, it does not hunt, but to cut things up is definitely its fate. What is it?

### Last month's answer:

A saw.

## THE MONTH IN BRIEF

Bears presumed stocks would retreat in May. Instead, the three major U.S. indices posted gains – the Nasdaq Composite led the way with a 2.60% advance. This happened even as the U.S. Dollar Index rose and Federal Reserve chair Janet Yellen re-emphasized the probability of an interest rate hike in the fall. The latest hiring and housing numbers were strong; other stateside indicators pointed to moderation in the pace of manufacturing, and consumers saving cash instead of spending it. Overseas stock markets were up and down. Oil topped the \$60 level while ag futures slumped. All in all, the month turned out better than Wall Street expected.<sup>1,15</sup>

## DOMESTIC ECONOMIC HEALTH

The reduced hiring of March gave way to greater payroll expansion in April. Companies added 223,000 new employees in the fourth month of the year, to the relief of economists eyeing the mere 85,000 jobs created a month earlier. Both the headline and U-6 unemployment rates ticked down 0.1%, respectively reaching 5.4% and 10.8%.<sup>2</sup>

At 95.4, May's Conference Board consumer confidence survey improved off the (revised) April mark. The University of Michigan's final May consumer sentiment index declined to 90.7, its lowest final reading in six months (though it rose from the initial May number of 88.6).<sup>3,4</sup>

While April had brought a 0.3% rise in the core consumer price index, the headline CPI rose just 0.1%. Annualized headline and core inflation were moving in markedly different directions: year-over-year headline CPI was -0.2% while year-over-year core CPI was +1.8%.<sup>5</sup>

Gasoline was cheaper in most of the nation this spring than it was a year earlier, yet households seemed reluctant to make discretionary purchases. Retail sales were flat in April; even core retail sales (minus car and truck buying) only improved 0.1%. Consumer spending was also flat for April, even as consumer wages rose 0.4%.<sup>6</sup>

Turning from the consumer to the manufacturer, the Institute for Supply Management's manufacturing PMI rebounded in May, rising from 51.5 in April to 52.8.

## GLOBAL ECONOMIC HEALTH

Fresh PMI readings did little to alleviate anxieties that China was mired in its deepest economic slump since the Great Recession. The good news: its official manufacturing sector PMI edged up a tenth of a point to 50.2, instead of slipping below 50 into contraction territory. The bad news: China's official services sector PMI declined 0.2 points to 53.2, and factory profits had decreased since the first of the year. China's annualized inflation rate was 1.5% in April.<sup>9,10</sup>

The latest impasse in the Greek debt crisis remained unresolved as May ended, with a June 5 deadline looming for the nation's next payment of €300 million to the International Monetary Fund. The IMF's Greek bailout program was scheduled to end on June 30, with the possibility that Greece could end up outside the eurozone if (already relaxed) repayment terms were not met. Data showed Eurozone joblessness remaining at 11.3% in March, with industrial output dipping 0.3%.<sup>11,12</sup>

(ISM's non-manufacturing index also improved 1.3 points to a mark of 57.8 in April.) Core capital goods orders rose 0.5% in April, though total hard goods orders fell 0.5%. Industrial production was also down 0.3% in April. As for the Producer Price Index, lower fuel costs assisted its 0.4% April decline.<sup>3,6,7</sup>

May also saw the Bureau of Economic Analysis revise its estimate of Q1 GDP. A disappointing 0.2% advance was recharacterized as a 0.7% retreat. On May 22, Fed chair Janet Yellen stated that she still expected the central bank to begin raising interest rates in 2015, with the initial adjustment being the first in a series of gradual moves. As CNNMoney noted, many analysts think the Fed will make its first move in September.<sup>3,8</sup>

## WORLD MARKETS

May was not a good month for many of the broad multinational stock barometers. The fifth month of the year saw retreats of 4.16% for the MSCI Emerging Markets Index, 2.17% for the Europe Dow, 1.69% for the Asia Dow, and 0.57% for the Global Dow; still, the Dow Jones Americas rose 0.51%, the MSCI World Index 0.05% and the STOXX 600 1.03%.<sup>1,13</sup>

Performance of national benchmarks varied widely. In the Americas, the Merval lost 10.37%, the Bovespa 6.17% and the TSX Composite 1.38%; the IPC All-Share gained 0.27%. As for European bourses, the German DAX lost 0.35%, the Spanish IBEX 35 1.47%, and the French CAC 40 0.76%; Russia's RTS had another rough month, falling 5.88%. Ireland's ISEQ rose 3.76%, Great Britain's FTSE 100 0.34%. Among the Asia Pacific indices, there were gains of 3.83% for the Shanghai Composite, 5.34% for the Nikkei 225 and 3.03% for the Sensex; elsewhere, the S&P/ASX 200 lost 0.22%, the KSE 100 2.00%, the Manila Composite 1.74%, the Kospi 0.58% and a 2.52% decline for the Hang Seng.<sup>1</sup>

## COMMODITIES MARKETS

The dollar flexed its muscles once more – the U.S. Dollar Index increased 2.44% for May to wrap up the month at 96.91. Silver posted a 3.79% gain for the month, closing at \$16.70 on the COMEX on May 29. On the same afternoon, gold settled at \$1,189.60, advancing 0.62% for the month. Copper futures lost 4.30% for May, platinum futures 3.41%.<sup>14,15</sup>

Oil prices topped \$60 again as a 0.77% May gain led to a May 29 NYMEX close of \$60.30 for WTI crude. Unleaded gasoline nearly matched oil's monthly advances, going +0.66%; natural gas went -3.22%, heating oil -1.54%.<sup>15</sup>

Most of the important crop futures slid in May. While respective gains of 4.71% and 2.08% came for cocoa and wheat, soybeans lost 4.82%, coffee 7.84%, sugar 8.09%, corn 2.97% and cotton 5.20%.<sup>15</sup>

## REAL ESTATE

Positive housing statistics kept rolling in during the month, with one notable exception: the National Association of Realtors announced a 3.3% April dip in existing home sales. NAR's pending home sales index, however, rose 3.4% in April to an 8-year high, and the Census Bureau reported new home sales up 6.8% for April.<sup>16</sup>

## UPCOMING ECONOMIC RELEASES:

Just ahead, the rest of June unfolds with ISM's May non-manufacturing PMI, a new Fed Beige Book and the May ADP employment report (6/3), the May Challenger job cuts report (6/4), the Labor Department's May jobs report (6/5), April wholesale inventories (6/9), May retail sales and April business inventories (6/11), the May PPI and the initial June consumer sentiment index from the University of Michigan (6/12), May industrial output (6/15), May housing starts and building permits (6/16), a new Fed policy statement (6/17), the May CPI and May leading economic indicators from the Conference Board (6/18), May existing home sales (6/22), May new home sales and hard goods orders (6/23), the final estimate of Q1 GDP (6/24), May consumer spending (6/25), the final June University of Michigan consumer sentiment index (6/26), May pending home sales (6/29), and finally the Conference Board's June consumer confidence index and the S&P/Case-Shiller April home price index (6/30).

When it came to housing values, the news was also quite good. The overall S&P/Case-Shiller home price index was still up 4.1% year-over-year, and NAR revised its projected 2015 advance for existing home prices upward, estimating a median nationwide gain of 6.7%. NAR also noted that 40% of the existing homes moving in April had sold for their asking price or better.<sup>16</sup>

April had also seen a great leap in groundbreaking. The Census Bureau reported the pace of housing starts hitting a 7-year peak – they climbed 20.2%. Building permits were up 10.1%.<sup>16,17</sup>

Home loan interest rates rose in May. On April 30, Freddie Mac's Primary Mortgage Market Survey calculated the average interest of 3.68% on a 30-year FRM, 2.94% on a 15-year FRM, 2.85% on a 5/1-year ARM and 2.49% on a 1-year ARM. On May 26, the average rates were 3.87% for the 30-year FRM, 3.11% for the 15-year FRM, 2.90% for the 5/1-year ARM and 2.50% for the 1-year ARM.<sup>18</sup>

## LOOKING BACK...LOOKING FORWARD

The Nasdaq's 2.60% gain took it to 5,070.03 at the end of the month; the S&P 500 wound up at 2,107.39 with a 1.05% advance, the Dow at 18,010.68 from a 0.95% May improvement. All that paled in comparison to the monthly leaps taken by the Arca Biotechnology index and Nasdaq Biotech index; the former rose 10.43% in May, the latter 9.24%. The CBOE VIX was a notable loser in May, down 4.88% to a final May settlement of 13.84.<sup>1</sup>

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
<b>DJIA</b>	<b>+1.05</b>	<b>+7.86</b>	<b>+15.54</b>	<b>+7.08</b>
<b>NASDAQ</b>	<b>+7.05</b>	<b>+19.35</b>	<b>+24.93</b>	<b>+14.43</b>
<b>S&amp;P 500</b>	<b>+2.36</b>	<b>+9.76</b>	<b>+18.69</b>	<b>+7.58</b>
REAL YIELD	5/29 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
<b>10 YR TIPS</b>	<b>0.32%</b>	<b>0.22%</b>	<b>1.32%</b>	<b>1.67%</b>

Sources: wsj.com, bigcharts.com, treasury.gov – 5/29/15<sup>1,19,20</sup>

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.

Bears maintain that June is a poor month for stocks – but recent S&P 500 history offers a mixed picture of gains and losses. The S&P went negative in June 2010, 2011 and 2013 but positive in June 2012 and 2014, with monthly performance varying from -5.4% to +4.0%. As May showed us, history often means nothing with regard to current market performance. This month features an OPEC meeting, a G7 meeting, a Federal Open Market Committee meeting, and hopefully a quick deal to allow Greece to stay in the eurozone – all in addition to usual avidly watched indicators. While investors might be tempted to play defense in June, the market might surprise those who refused to sell in May with a nice gain.<sup>21</sup>

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The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The Merval Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. 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 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 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 DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The IBEX 35 is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. 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 SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. 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 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). 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. Karachi Stock Exchange 100 Index (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period. The Philippine Stock Exchange PSEI Index is a capitalization-weighted index composed of stocks representative of the Industrial, Properties, Services, Holding Firms, Financial and Mining & Oil Sectors of the PSE; it was formerly named the PSE Composite. 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 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. 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