

Brexit Fears Pull Stocks Lower

June 20, 2016 — Stocks finished lower last Friday, with the S&P 500 in retreat for a fourth day in the past five sessions. The S&P 500 ended with its worst weekly performance since April. Investors grew increasingly concerned about global growth ahead of the U.K.’s June 23 “Brexit” vote—a referendum vote to leave or stay within the European Union (E.U.). The debate turned violent when a gunman murdered Jo Cox, a British Member of Parliament and supporter of staying in the E.U. On Wednesday, U.S. Federal Reserve policy makers voted to keep interest rates unchanged and slightly reduced their gross domestic product (GDP) forecasts for this year and next. Fed Chair Janet Yellen acknowledged that the upcoming Brexit vote played a role in the Fed’s decision to delay a rate hike. Also notable during the week, German 10-year sovereign debt yields turned negative for the first time in history.

In key economic data, import and export prices increased more than forecast in May. Retail sales rose 0.5% last month, and the New York Fed’s Empire manufacturing survey index rebounded back into positive territory. May wholesale prices climbed 0.4%, exceeding economists’ consensus forecast, while consumer prices rose 0.3%, missing projections. After surging 6.6% in April, housing starts declined by 0.3% in May, a sign that residential housing will add little to second quarter GDP.

For the week, the S&P 500 declined 1.12%; the Dow Jones Industrial Average fell 1.06%; and the NASDAQ Composite lost 1.90%. Eight of the ten major sectors posted declines last week, led by Healthcare (-1.98%), Technology (-1.93%), and Financials (-1.89%). Telecom (+1.42%) and Utilities (+0.72%) outperformed. The U.S. Dollar Index weakened by 0.38% to 94.206. Gold futures gained 1.97% last week, extending a four-week rally to 7.1%. West Texas Intermediate (WTI) crude oil futures declined by \$1.09/barrel to end the week at \$47.98. Treasuries prices extended gains, dropping the yield on 10-year Treasury notes by 3.2 basis points to 1.609%.

What We’re Reading

[Brexit Polls Shift to “Remain” ↗](#)

[Oil Rebounds, Nearing \\$50/bbl. ↗](#)

[Fannie Mae’s View for Growth ↗](#)

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Week’s Economic Calendar

Monday, June 20: No major releases scheduled;

Tuesday, June 21: Fed Chair Janet Yellen Testifies to Congress;

Wednesday, June 22: MBA Weekly Mortgage Applications, Existing Home Sales;

Thursday, June 23: Jobless Claims, Chicago Fed National Activity, PMI Mfg., New Home Sales, Leading Economic Indicators;

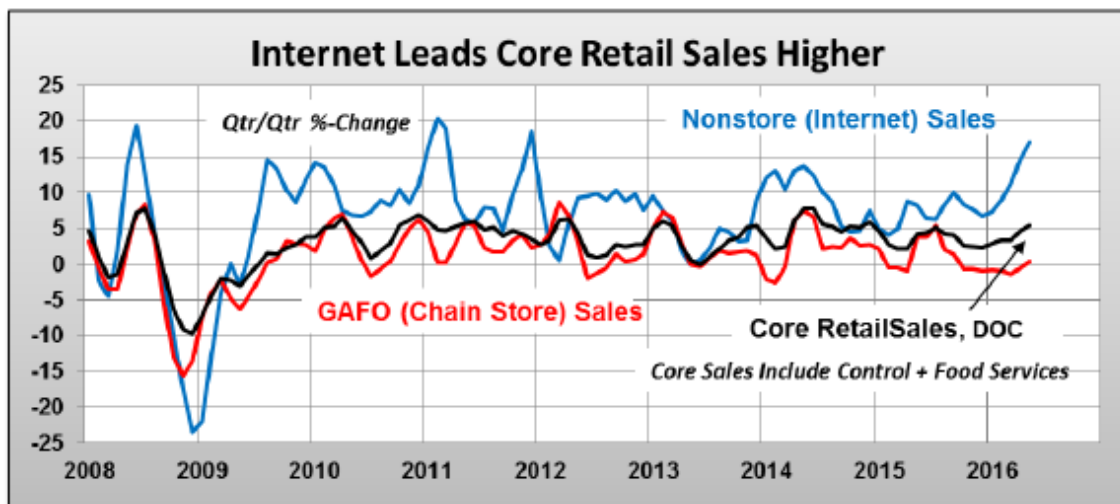
Friday, June 24: Durable Goods Orders, Consumer Sentiment Index.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-1.06%	-0.63%	1.11%	1.44%	-1.45%	5.20%
S&P 500	-1.12%	-1.11%	2.06%	2.42%	0.81%	10.42%
NASDAQ Composite	-1.90%	-2.94%	0.86%	-3.53%	-4.03%	12.98%
Russell 3000	-1.14%	-1.07%	2.50%	2.31%	-0.85%	9.98%
MSCI EAFE	-2.76%	-4.23%	-2.77%	-5.29%	-11.76%	0.39%
MSCI Emerging Markets	-2.06%	0.07%	-0.70%	2.40%	-14.75%	-3.35%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.05%	1.04%	2.23%	4.53%	5.13%	3.33%
Barclays Municipal	0.40%	1.12%	2.68%	3.85%	7.30%	4.78%
Barclays US Corp High Yield	-0.79%	0.21%	5.00%	8.29%	0.52%	3.38%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.24%	3.98%	9.22%	13.09%	-11.56%	-12.05%
S&P GSCI Crude Oil	-2.08%	-1.10%	16.56%	31.10%	-19.47%	-20.87%
S&P GSCI Gold	1.48%	6.35%	2.25%	22.13%	10.01%	-2.17%

Source: Morningstar

Chart of the Week: Retail Sales are Improving; Shopping Trends are Changing



After two soft quarters in monthly retail sales, the U.S. Department of Commerce's survey of retail sales surged 1.3% in April followed by a better than expected 0.5% gain in May. According to Argus Research, April and May retail sales are consistent with 5% or better current dollar growth in Personal Consumer Expenditures (PCE). Argus expects stronger sales growth in the second and third quarters, driven in part by a resurgence in internet spending, which has reached 4 1/2 year highs. Specifically, the resurgence in core and control retail sales indicates that total consumer spending and GDP will be stronger in the second and third quarters. These factors could even play an important part in the Federal Open Market Committee (FOMC) policy deliberations regarding the timing of raising interest rates.

Traditional chain and department stores continue to lose market share, if not outright sales. Very few have been able to buck the trend. On the other side, however, non-store (Internet-based) retailers continue to amass sales and market share. As the chart above illustrates, Internet annual sales growth has doubled in the past 6 months, rising at a 17% rate in the past quarter. Core retail sales have bounced back to 5.4% in the 3 months ending in May, up from just 2.3% and 3.3% growth in Q4 2015 and Q1 2016. Core sales exclude auto, gas and building related. Control retail sales, which are Core sales less food services, also rebounded to 5.3% in the May quarter, up from just 1.3% and 2.8% reported growth in the fourth and first quarters, respectively.

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Glossary

The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **Consumer Price Index (CPI)** is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI Emerging Markets is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

The **Russell 1000 Index** comprises the 1,000 largest companies in the U.S. equity market, and is a subset of the Russell 3000 Index. The Russell 1000 is a market capitalization-weighted index, meaning that the largest companies constitute the largest percentages in the index, affecting performance more than the smallest index members. The inception date for the Russell 1000 and 3000 indices was January 1, 1984.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **S&P Growth Index** is a float adjusted, market capitalization weighted index of 317 stocks drawn from the S&P 500 Index that exhibit strong growth characteristics. S&P Dow Jones Indices uses three factors to measure growth: sales growth, the ratio of earnings change to price, and momentum.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.

The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.

The **S&P Value Index** is a float adjusted, market capitalization weighted index of 364 stocks drawn from the S&P 500 Index that exhibit strong value characteristics. S&P Dow Jones Indices uses three factors to measure value: the ratios of book value, earnings and the sales to price sales metric.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

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. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USD_X or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.