

## Fed Rate Caution Sends Stocks Higher

**April 4, 2016** — The S&P 500 advanced last week, completing its sixth weekly gain in the past seven weeks and finishing at its highest closing level of the year. The week was defined by a market-friendly speech delivered by Federal Reserve Chair Janet Yellen on Tuesday to the New York Economic Club, where she said she is in no rush to raise rates amid a sluggish global economy. Her stance that the Fed must “proceed cautiously” quashed rate hike expectations stirred by comments from several Fed district presidents that a rate hike could come as soon as April. The dovish stance helped equities conclude their largest quarterly turnarounds since the Great Depression.

In other key economic data last week, Commerce Department officials said personal incomes rose 0.2% in February, down from a larger increase the month prior, but higher than forecast, while spending rose 0.1% for a third month. Home prices continue to trend higher and the Conference Board’s reading of consumer confidence increased for March. All three U.S. automakers posted March sales gains, although they missed analysts’ estimates, with the overall annualized sales pace slowing to the lowest level in 13 months. The week culminated with continued gains in employment, with payrolls increasing by 215,000 in March, down slightly from an upwardly revised increase in February. Hourly earnings climbed more than expected, while the headline unemployment rate edged higher to 5% from 4.9% the month prior.

For the week, the S&P 500 rose 1.84%, the Dow Industrials gained 1.58% and the NASDAQ Composite surged 2.97%. Nine of the ten major sector groups advanced, led by Technology (+2.73%), Consumer Staples (+2.65%) and Consumer Discretionary (+2.52%). Energy (-1.26%) lagged after a Saudi Arabia official said the nation would only agree to an oil production freeze if Iran joined the agreement. WTI crude oil futures retreated by over 6.7% last week, ending at \$36.79/barrel. Treasuries rallied over the week, with the yield on 10-year Treasury notes declining by 13 basis points to end at 1.771%.

### What We’re Reading

[ECB Begins Increased Debt Purchases; Stimulus Perspective ↗](#)

[Dollar Falls on Yellen’s Dovish Stance; Another Fed Chair Speech on Thursday ↗](#)

[Russian Oil Production Reaches 1987 High; New Doubts on Oil Output Freeze Deal ↗](#)

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### Week’s Economic Calendar

**Monday, April 4:** Factory Orders;

**Tuesday, April 5:** U.S. Trade Deficit, JOLTS, ISM Non-Mfg Index;

**Wednesday, April 6:** MBA Mortgage Applications, FOMC Meeting Minutes;

**Thursday, April 7:** Jobless Claims;

**Friday, April 8:** Wholesale Trade.

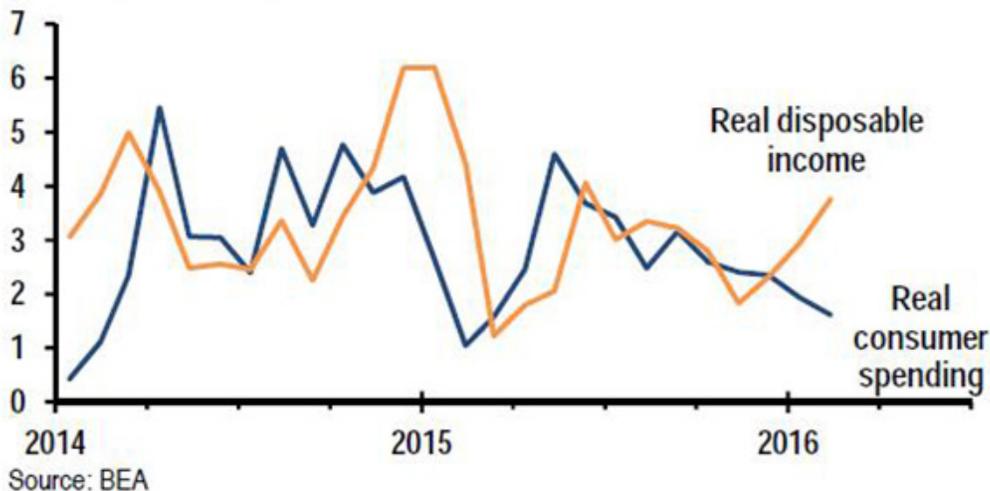
## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.58%	0.61%	2.11%	2.11%	0.53%	6.88%
S&P 500	1.84%	0.63%	1.99%	1.99%	2.82%	12.22%
NASDAQ Composite	2.97%	0.92%	-1.53%	-1.53%	1.90%	16.32%
Russell 3000	2.05%	0.59%	1.56%	1.56%	0.61%	11.57%
MSCI EAFE	-0.21%	-2.14%	-5.08%	-5.08%	-10.34%	1.65%
MSCI Emerging Markets	1.74%	-1.26%	4.37%	4.38%	-13.85%	-4.79%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.58%	-0.04%	2.99%	2.99%	1.60%	2.45%
Barclays Municipal	0.50%	0.06%	1.73%	1.73%	3.95%	3.64%
Barclays US Corp High Yield	0.33%	-0.01%	3.34%	3.34%	-3.72%	1.82%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-1.65%	-1.12%	-0.71%	-0.71%	-21.84%	-16.95%
S&P GSCI Crude Oil	-6.77%	-4.04%	-0.67%	-0.67%	-26.51%	-27.63%
S&P GSCI Gold	0.00%	-0.98%	15.40%	15.40%	1.26%	-8.57%

Source: Morningstar

## Chart of the Week: The Consumer Spending Conundrum; Incomes Rise, Spending Slows

Figure 4: Real consumer spending and real disposable income  
%ch saar over 3 months



The chart above shows real consumer spending increased at a moderate 0.2% seasonally-adjusted monthly rate in February, but the January figure was revised lower to unchanged from 0.4%. This in turn reduced the tracking estimate of 1Q 2016 real consumer spending growth from 2.9%

to just 1.7% (seasonally-adjusted annual rate, SAAR). January real spending on goods was revised down to minus 0.3% (from +0.7%) and spending on services was revised down to +0.1% (from +0.3%).

On the other hand, real disposable income, through the first two months of the quarter, was up a solid 3.4% (SAAR), so the slowdown in spending reflects an abrupt increase in the saving rate, from a 5% average in 4Q 2015 to 5.4% in February. Unfortunately, there is no obvious reason for the spending slump, although the sharp decline in equity prices early in the year may have discouraged spending. If this is the case, then we would expect a rebound in spending relatively soon. However, data on Friday showed unit auto sales were tracking at 16.6 million for March, down from 17.4 million the month before and the weakest pace since February 2015. Confounding matters further, auto makers spent an average of \$3,110 on sales incentives per vehicle sold last month, 14% more than a year earlier and up slightly from February, according to Autodata Solutions.

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*This report is created by Tower Square Investment Management LLC*

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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 **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 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 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 **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.

**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.