

Equities Post Fifth Monthly Gain

August 1, 2016 — Despite ending Friday within two points of its 2,175.03 historical high, the S&P 500 posted a small loss last week, snapping four consecutive weekly gains. The benchmark equity index advanced 3.69% in July, its fifth monthly gain, and has rallied 8.82% from its June 27th post-Brexit low. Technology shares led the advance, surging 13.11% since the late-June low. Last week’s focus was on second quarter earnings and a disappointing reading of second quarter growth. With more than half of S&P 500 companies having reported quarterly results, overall earnings are now expected to decline 3.8% from a year earlier, according to Fact Set. A week earlier, when 126 S&P 500 firms had reported, analysts had projected a 4.4% earnings decline and before the earnings season start, analysts originally forecast a 5.3% pullback in profits.

Key among economic data last week was Friday’s lackluster preliminary growth report for the second quarter. In the first of three Commerce Department estimates, GDP expanded at a 1.2% annualized rate last quarter, well below economists’ projections for 2.5% growth. The disappointment was largely due to falling business inventories, subtracting 1.16 percentage points from growth. Within the report, the lone bright spot was a 4.2% jump in personal spending, up from a revised 1.6% pickup during the first quarter. Overall first quarter growth was revised lower to 0.8% from 1.1%.

For the week, the S&P 500 slipped 0.05%, the Dow Industrials fell 0.75%, and the NASDAQ Composite gained 1.23%. Seven of the ten major sectors ended negative, with Energy (-2.05%) and Consumer Staples (-1.44%) falling the most. Technology (+1.56%) led among gainers, boosted by street-beating earnings from internet and software companies. The US Dollar Index weakened all five days, falling nearly 2% to end at 95.530. U.S. oil futures retreated 5.86% last week, ending at a three-month low of \$41.60/bbl. Hurt by rising global oil production, crude oil is now down 20.5% from its \$52.31 June 8th peak, meeting the definition of entering a bear market. Treasuries climbed higher, pulling the yield on benchmark 10-year Treasury notes down 11.3 basis points to 1.454%

What We’re Reading

[European Stocks Down After Stress Test ↗](#)

[Early 2Q GDP Reading Misses Forecast ↗](#)

[NY Fed Head Urges Caution About Rate Hikes ↗](#)

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Week’s Economic Calendar

Monday, Aug 1: PMI Manufacturing Index, ISM Mfg Index, Construction Spending;

Tuesday, Aug 2: Personal Income and Outlays;

Wednesday, Aug 3: ADP Private Employment, PMI Services Index, ISM Non-Manufacturing Index;

Thursday, Aug 4: Challenger Job Cuts, Weekly Jobless Claims, Factory Orders;

Friday, Aug 5: Non-farm Payrolls Report, International Trade, Consumer Credit.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-0.75%	2.80%	3.71%	5.78%	3.83%	5.89%
S&P 500	-0.05%	3.69%	5.82%	7.66%	5.38%	11.17%
NASDAQ Composite	1.23%	6.65%	8.45%	3.82%	2.25%	14.15%
Russell 3000	0.07%	3.97%	6.05%	7.74%	4.37%	10.65%
MSCI EAFE	2.38%	5.07%	0.62%	0.42%	-6.62%	1.98%
MSCI Emerging Markets	0.51%	5.03%	5.16%	11.77%	-0.56%	-0.50%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.48%	0.63%	2.47%	5.98%	6.28%	4.23%
Barclays Municipal	0.27%	0.06%	1.93%	4.40%	7.05%	5.92%
Barclays US Corp High Yield	-0.34%	2.70%	4.29%	12.01%	5.27%	4.43%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.41%	-5.11%	-1.38%	7.46%	-9.21%	-12.50%
S&P GSCI Crude Oil	-5.86%	-13.93%	-9.41%	12.31%	-14.71%	-26.44%
S&P GSCI Gold	1.95%	2.79%	5.19%	28.04%	24.11%	0.69%

Source: Morningstar

Chart of the Week: S&P's Sign Post: August, September May Challenge Investors' Emotions

% Chgs.	All Mos.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Average	0.66	0.96	(0.20)	1.37	1.40	0.28	(0.00)	0.98	(0.20)	(0.66)	1.05	1.21	1.71
% Chg Rank	NA	7	10	3	2	8	9	6	11	12	5	4	1
Std. Deviation	14.6	16.5	12.6	12.0	13.2	12.8	11.9	14.0	16.0	15.6	18.8	15.3	10.5
Best	10.3	13.2	7.1	9.7	9.4	9.2	8.2	8.8	11.6	8.8	16.3	10.2	11.2
Worst	(10.8)	(8.6)	(11.0)	(10.2)	(9.0)	(8.6)	(8.6)	(7.9)	(14.6)	(11.9)	(21.8)	(11.4)	(6.0)
Up Month?	59%	61%	52%	66%	69%	58%	52%	55%	54%	43%	61%	64%	76%

Source: S&P DJ Indices. Past performance is no guarantee of future results.

August and September have traditionally been the worst months for stock-price returns. Maybe it's because of reduced capital inflows, vacations, upcoming earnings reality, and Mutual Funds' fiscal year-end window dressing. Whatever the reasons, the results are unmistakable. August and September have recorded the worst two average price performances since 1945. According to S&P Global Market Intelligence U.S. Equity Strategist Sam Stovall, "while the S&P 500 rose in price in nearly 60% of all months, it advanced only 54% of the time in August and fell more times than it rose in September."

In the S&P/Dow Jones' chart above, Stovall alerts that August and September are ranked 11 and 12 in terms of monthly price increases since WWII. They recorded the 2nd and 3rd deepest single-month declines and are in the top 1/3rd of monthly volatility. Also, the S&P 500 recorded one-

third of all monthly declines of 5% or more in August and September. Only October 1987's drop of 21.8% and October 2008's slump of 16.9% were worse.

This review is historical and actual results are not always gospel. However, S&P's Sam Stovall's admonition is that investors who are aware that the market traditionally stumbles during these two months are less likely to become their portfolios' worst enemies by reacting emotionally. Rather, as Stovall observes, investors are more often than not better off buying than bailing.

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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 USDX 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.