

Wall Street Climbs Fractionally Higher

October 24, 2016 U.S. stocks gained fractionally last week, despite challenges from mixed corporate earnings reports and soft economic data. Of the 116 S&P 500 companies that have so far reported third quarter results, per share profits have grown by 3.8% over the past year. While this is favorable early on in the earnings season, overall earnings are still expected to decline by 0.4% for the quarter. Also concerning is the lower percentage of earnings topping analysts' forecasts and just half exceeding their revenue estimates. Uncertainty ahead of the November 8th elections and interest rate prospects also weighed on investor sentiment.

U.S. economic data continues to be mixed and somewhat uneven. Industrial production increased 0.1% in September, following downward revisions to the prior three months. Housing starts plunged 9% last month, although the 6.3% gain in permits suggests a rebound in housing starts in the fourth quarter. Weakness was mainly in multi-family units, and extended across all regions except the west. Existing home sales rose more than forecast in September, rising in all four regions including the strongest pace of existing home sales in the west since November 2009.

For the week, the S&P 500 rose 0.41%, the Dow Industrials gained just eight-points (+0.04%) and the NASDAQ Composite advanced 0.83%. Seven of the 11 major sector groups ended negative, led by Telecom (-2.32%) and Healthcare (-0.88%). Financials were unchanged, while Consumer Discretionary (+0.77%) and Technology (+0.57%) gained the most. The US Dollar Index strengthened for the third straight week, finishing at 98.695, a seven-month high. Oil was relatively quiet, rising just a dime per barrel last week, ending at \$50.85/barrel. Treasury edged higher over the past five-trading days, with the yield on 10-year Treasury notes falling 6.3 basis points to end at 1.736%.

What We're Reading

Stocks Climb to Two-Week High ↗

China Buys More Foreign Firms than the U.S. ↗

Existing Home Sales Rebound Strongly ↗

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Week's Economic Calendar

Monday, October 24: Chicago Fed National Activity, Markit PMI Manufacturing;

Tuesday, October 25: S&P Corelogic Case-Shiller Home Price Index, Consumer Confidence, Richmond Fed Manufacturing;

Wednesday, October 26: Intl Goods Trade, Markit Non Mfg Index, New Home Sales;

Thursday, October 27: Durable Goods Orders, Jobless Claims, Pending Home Sales;

Friday, October 28: Advance 3Q GDP Estimate, University of Michigan Consumer Sentiment.

Market Watch

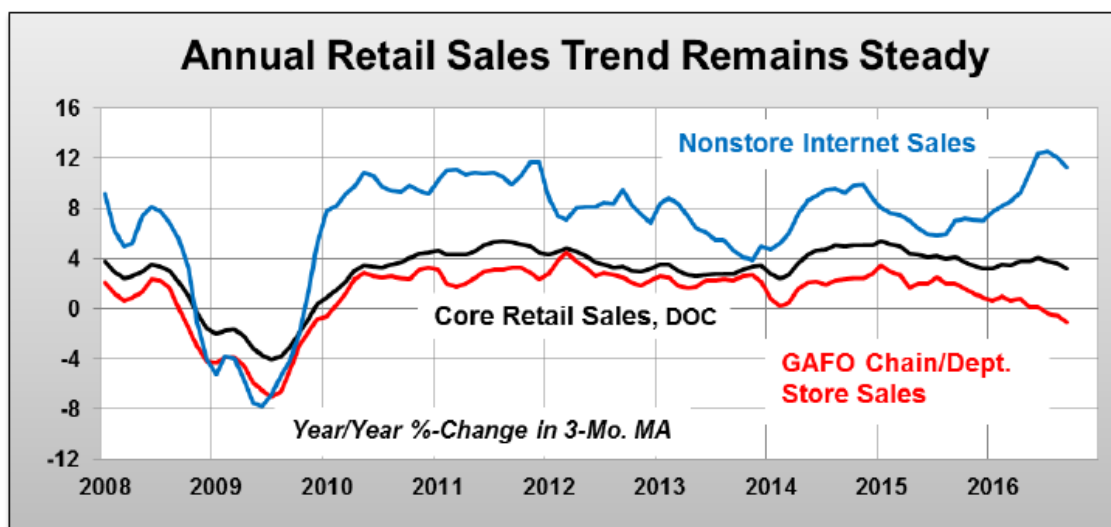
Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.04%	-0.89%	-2.01%	4.14%	5.68%	5.64%
S&P 500	0.41%	-1.15%	-0.58%	6.60%	8.39%	9.34%
NASDAQ Composite	0.83%	-0.99%	3.92%	6.03%	9.97%	11.62%
Russell 3000	0.43%	-1.34%	-0.37%	6.74%	8.03%	8.59%
MSCI EAFE	0.49%	-1.68%	1.54%	0.02%	-2.09%	-1.24%
MSCI Emerging Markets	1.59%	0.91%	5.05%	17.07%	8.55%	-2.08%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.33%	-0.35%	-0.05%	5.43%	4.35%	3.75%
Barclays Municipal	0.05%	-0.98%	-1.07%	2.99%	4.23%	5.29%
Barclays US Corp High Yield	0.58%	1.13%	3.63%	16.41%	11.06%	5.02%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.27%	0.91%	1.44%	9.87%	-2.09%	-12.30%
S&P GSCI Crude Oil	0.20%	5.41%	13.63%	37.28%	12.47%	-20.09%
S&P GSCI Gold	0.97%	-3.75%	-5.32%	19.57%	8.60%	-1.23%

Source: Morningstar

Chart of the Week: Retail Sales Slip, Trend Remains Cautiously Steady



Source: Argus Research

The slow start to the summer quarter retailing season was particularly evident in the General Merchandise, Apparel, Furniture and Others (GAFO) sales in chain and department store sales, which slumped 0.7% and 0.3%, respectively, in July and August. As Argus Research notes in the above chart, GAFO sales – and general merchandise in particular – slowed year-over-year growth in core retail sales from 4.1% in the second quarter to 3.2% growth in the summer quarter (second quarter 2016).

Quite notably, GAFO sales slid at a 2.8% rate in the third quarter, and have now fallen 1.3% in the past year. Outside of recessions and very cold winters, this is the first annual decline in GAFO sales since at least 1993. Moderating this somewhat, on continued shopping shifts from brick & mortar stores to the internet, web-based sales grew at a double-digit pace throughout the quarter.

In terms of GDP contribution, total real consumer spending is expected to slow from 4.3% to about 2.5% in the third quarter. In response, the Federal Reserve Bank of Atlanta had reduced their GDPNow real economic growth estimate from 2.1% to 1.9%. Following Thursday's strong 3.2% existing home sales increase, the Fed District's GDP forecast was revised higher to 2% growth.

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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 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 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.