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Market Month: May 2015



The Markets

The Federal Reserve's pronouncement that negative economic returns in the first quarter were transitory may be proving accurate as a few economic indicators are gaining momentum early in Q2. May began with weak economic news from the first quarter, which may have driven positive market gains with investors presuming that a weak economy would mean no imminent interest rate hike. However, as good economic news made headlines toward the end of the month, the possibility of an interest rate increase happening sooner rather than later may have prompted significant sell-offs. Nevertheless, all the major indexes closed ahead of April, led by the Nasdaq and the Russell 2000. Treasuries closed about 8 bps in front of April's closing yields.

Global markets were mixed amid frustration over whether Greece will reach an accord with its creditors, market volatility in China, and Q1 contraction in several countries' gross domestic product.

Crude oil remained around \$60 per barrel--roughly the same as April. Gold closed the month at \$1,190.50, about \$7 an ounce ahead of April. The dollar continued its strong performance in May.

Market/Index	2014 Close	Prior Month	As of 5/29	Month Change	YTD Change
DJIA	17823.07	17840.52	18010.68	0.95%	1.05%
Nasdaq	4736.05	4941.42	5070.03	2.60%	7.05%
S&P 500	2058.90	2085.51	2107.39	1.05%	2.36%
Russell 2000	1204.70	1220.12	1246.53	2.16%	3.47%
Global Dow	2501.66	2601.33	2586.18	-0.58%	3.38%
Fed. Funds	0.25%	0.25%	0.25%	0%	0%
10-year Treasuries	2.17%	2.05%	2.13%	8 bps	-4 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- "We're in the money, we're in the money" . . .well not really, but the Treasury Department reported government receipts of \$471.8 billion in April--an all-time high--creating a surplus of over \$156 billion, which is the largest surplus in the last seven years. Of course, April is generally the biggest tax month of the year, with the bulk of the government's receipts coming from individual income taxes (\$288 billion). Nevertheless, the deficit through the first seven months of the budget (\$282.8 billion) is about 7.7% lower compared to this time last year.
- The U.S. economy actually contracted 0.7% during 2015's first quarter, contrary to the advance estimate of plus 0.2%. That compares with a 2.2% rise in Q4 2014. Contributing factors include harsh weather, a strengthening dollar, disruptions in West Coast port operations, and lower oil prices.
- In the minutes from its May meeting, the Federal Open Market Committee (FOMC) did not see an

Key Dates/Data Releases

6/1: Personal income and outlays, ISM Manufacturing Index

6/3: International trade, ISM Non-Manufacturing Index

6/9: JOLTS job turnover report

6/11: Retail sales, business inventories, import and export prices

6/12: Producer Price Index

6/15: Empire State manufacturing survey, industrial production,

6/16: Housing starts

6/17: FOMC minutes, Fed Chair press conference, FOMC forecasts

6/18: Philly Fed manufacturing survey, Consumer Price Index

6/22: Existing home sales

6/23: Durable goods orders, new home sales

6/24: Q1 GDP (second estimate)

6/25: Personal income and outlays

6/30: S&P Case-Shiller Home Price Index

interest rate hike for June, although the topic will now be considered at every meeting. Driven by data, a rate hike will likely depend on continued employment growth and increasing inflationary pressure. Federal Reserve Chair Janet Yellen essentially echoed the "wait and see" sentiments of the FOMC in her latest speech, confirming that the economy is still soft, but is slowly gathering momentum, likely warranting a rate hike at some point this year.

- Inflation is an important factor in determining whether (and when) the Federal Reserve will raise interest rates, and while the overall Consumer Price Index rose a seemingly scant 0.1%, core readings were up 0.3% for all items less food and energy.
- Despite the upward inflationary trend, consumer spending was effectively level in April. Advance estimates of U.S. retail and food services sales were \$436.8 billion, virtually unchanged from the previous month, reflective of weakness in sales for department stores, food and beverage stores, and electronic and appliance stores.
- While not overwhelming, the employment report allowed for cautious optimism as the U.S. Bureau of Labor Statistics reported 223,000 new jobs were created in April—an increase of 138,000 new jobs compared to a weak March. But the number of employees voluntarily leaving their jobs increased by about 100,000 compared to February, possibly signaling optimism that better jobs are out there for the taking.
- Other economic news of note during May saw housing prices and new home sales increase, while sales of existing homes dropped in April. Initial claims for unemployment insurance rose toward the close of May, but the four-week average is still lower than last month. The national average retail regular gasoline price increased to \$2.744 per gallon on May 25, 2015. And consumer sentiment, as measured by the University of Michigan's Index, declined to 90.7, a precipitous drop from April's 95.9 reading, although an uptick from a mid-May low of 88.6.
- Latest reports in May show the U.S. trade deficit jumped to \$51.4 billion in March--the largest since October 2008. A stronger dollar coupled with the resolution of the West Coast port strike in mid-March helped facilitate surging imports. The gap with China grew from \$22.5 billion to \$31.2 billion in March and to \$7.1 billion vs. \$4.2 billion for Japan.
- The news was not all good for U.S. businesses and manufacturers. Prices received by domestic producers fell 0.4% in April according to the U.S. Bureau of Labor Statistics Producer Price Index. The Federal Reserve's index of industrial production decreased 0.3% in April for its fifth consecutive monthly loss.

Eye on the Month Ahead

Investors will be watching inflation, jobs, and business production as key factors considered by the Federal Reserve in deciding whether to raise interest rates. As for the U.S. dollar, will it continue its strong showing as we enter into the summer?

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

IMPORTANT DISCLOSURES

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