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Market Month: August 2015



The Markets (as of market close August 31, 2015)

Despite favorable economic news later in the month, the U.S. stock market was unable to recover all of its losses and closed in negative territory compared to July. Key factors in the downturn include fear that China's economy is weakening, the steep drop in the price of oil, lackluster corporate earnings reports, and the potential for an imminent interest rate hike. Each of the major market indexes listed here dropped between 6% and 7.50% for the month. The Dow, down more than 6.50%, marked its largest percentage decline since May 2010. Year-to-date, only the Nasdaq remained in positive territory--but only barely.

At the close of August, the price of gold (COMEX) was \$1,134.90. Crude oil (WTI) prices remained below \$50 a barrel, selling at \$47.86/barrel by month's end.

Market/Index	2014 Close	Prior Month	As of 8/31	Month Change	YTD Change
DJIA	17823.07	17689.86	16528.03	-6.57%	-7.27%
Nasdaq	4736.05	5128.28	4776.51	-6.86%	0.85%
S&P 500	2058.90	2103.84	1972.18	-6.26%	-4.21%
Russell 2000	1204.70	1238.68	1159.45	-6.40%	-3.76%
Global Dow	2501.66	2543.35	2354.75	-7.42%	-5.87%
Fed. Funds	0.25%	0.25%	0.25%	0%	0%
10-year Treasuries	2.17%	2.18%	2.21%	3 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

- August saw Greece and its creditors formally agree on the terms of an 86 billion euro bailout, which may have allowed the country to remain in the eurozone. Greek Prime Minister Alexis Tsipras, despite campaign promises to write off debt and ease austerity, negotiated the terms of the new deal, which ultimately included stricter austerity measures than had previously existed. With the new debt agreement formalized and his ruling party split, Tsipras resigned, paving the way for an election likely to be held sometime in September. Nevertheless, it would appear that the latest deal has eased economic tensions in Greece, at least for now.
- August also saw China's economy continue its dramatic slowdown, causing turmoil in stock markets around the globe. When the second-largest economy contracts, other markets feel the heat. The Chinese government has responded by cutting interest rates and lowering bank reserve requirement ratios, allowing for more money to be available to borrow for investment. It is to be determined whether these measures will increase investors' confidence concerning China's economic growth, which is presently predicted to be at its slowest pace in over 20 years.
- The second quarter GDP continued to expand, increasing at an annual rate of 3.7% compared to the first quarter's growth rate of 0.6%. The second quarter showed increased consumer spending, strong

Key Dates/Data Releases

9/1: ISM Manufacturing Index

9/3: International trade, ISM Non-Manufacturing Index

9/4: Employment situation

9/9: JOLTS

9/11: Producer Price Index, Treasury budget report

9/15: Industrial production, retail sales

9/16: Consumer Price Index

9/17: Housing starts, FOMC forecasts and chair press conference

9/19: FOMC minutes, Consumer Price Index

9/21: Existing home sales

9/24: New home sales, durable goods orders

9/25: GDP

9/28: Personal income and outlays

residential investment, and an uptick in exports. Also of note is the GDP's price index, which came in at 2.1%--right at the Fed's stated policy goal of 2.0% inflation.

- Speaking of the Federal Open Market Committee, it did not meet in August, but provided enough discourse on a potential interest rate increase to draw significant attention. Nevertheless, the August release of the minutes of the committee's July meeting revealed no clear consensus among committee members as to when rates should be raised.
- August's U.S. Treasury report for July revealed a budget deficit of \$149.2 billion, attributable, in part, to a shifting of payments up to July that had previously been scheduled for August. The total budget deficit through July 2015 was \$465.5 billion, or about \$5.0 billion over the same ten-month period last year.
- U.S. retail and food services sales advance estimates for July were \$446.5 billion, an increase of 0.6% from June, and up 2.4% over July 2014, according to the U.S. Census Bureau. Total sales for the three-month period of May 2015 through July 2015 were up 2.3% compared to the same period in 2014.
- Inflation increased in July, but only by the slightest of margins. The overall Consumer Price Index rose 0.1% in July from a month earlier, according to the Bureau of Labor Statistics. Over the last 12 months, the unadjusted price index for all items increased by 0.2%. However, excluding the volatile food and energy components, the index has gained 1.8% for the 12 months ended July 2015.
- U.S. producers in July received slightly higher prices for their goods and services. The Bureau of Labor Statistics Producer Price Index for goods and services rose a seasonally adjusted 0.2% in July, following an increase of 0.4% in June and 0.5% in May. Even with these moderate price increases, the PPI has generally declined over the past year with overall producer prices down 0.8% compared to the 12-month period ended July 2014.
- Despite lagging a month, the Labor Department's Job Openings and Labor Turnover Survey (JOLTS) provides useful information on the labor market--particularly job openings, hires, and separations. The number of job openings in June fell slightly to 5.25 million from 5.56 million in May. The decrease in the number of job openings may be due, in part, to an increase in the number of new hires, which rose 0.1% to 3.7%. Over the 12 month period ended June 2015, hires totaled 60.6 million while separations totaled 57.9 million, yielding a net employment gain of 2.7 million.
- Evidencing continuing weakness in goods exports, the U.S. trade deficit for June came in at \$43.8 billion--up \$2.9 billion from May's revised total. Compared to May, exports for June dropped by \$136 million, while imports increased by \$2.8 billion.
- Imports and exports prices continue to feel deflationary pressures. Import prices for goods bought in the United States, but produced abroad fell 0.9% in July, after recording no change in June. Export prices for goods sold abroad but produced domestically were down 0.2% following a 0.3% drop in June, according to the Bureau of Labor Statistics.
- The housing market has remained a consistently performing sector. Compared to June, sales of new homes rose 5.4%, while existing home sales were up 2.0%. In both cases, demand has thinned supply to around five months.
- In other developments, for the week ended August 22, there were 271,000 initial claims for unemployment insurance, and 2,269,000 continuing claims for the week ended August 15, which yielded an insured unemployment rate of 1.7%. Compared to last month, the national average retail regular gasoline price dropped from \$2.745 per gallon on July 27, 2015, to \$2.637 per gallon on August 24--a fairly significant decrease of \$0.108. Overall, consumer confidence rebounded in August, increasing to 101.5 compared to 90.9 in July, according to The Conference Board's Consumer Confidence Index.

Eye on the Month Ahead

China's tumbling stock market clearly impacted U.S. stocks in August. Market recovery in September will be tied, at least in part, to whether China can boost its sagging economy. The results of the FOMC meeting in September may finally provide a firm indication of when interest rates will be increased and by how much. It appears that as the third quarter comes to a close, market volatility may continue.

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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