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Market Month: May 2016



The Markets (as of market close May 31, 2016)

Following an up-and-down path similar to what occurred in April, the indexes listed here ultimately closed the month of May higher (except for the Global Dow). The month started with a run of positive returns, only to see much of the month's gains given back by the end of May. Information from the Fed that interest rates could be raised as early as June could be interpreted as both a positive (improving economy) and a negative (higher lending rates), which seemed to flummox investors a bit. Several economic indicators picked up the pace in May as employment remained steady, the housing market gained some momentum heading into the summer months, and consumer prices increased along with mounting oil prices.

Long-term bond yields fluctuated during the month, ultimately closing at essentially the same yield as April's closing return. The price of gold (COMEX) decreased by month's end, selling at \$1,217.50--about \$77 below April's end-of-month price of \$1,294.90.

Market/Index	2015 Close	Prior Month	As of 5/31	Month Change	YTD Change
DJIA	17425.03	17773.64	17787.20	0.08%	2.08%
Nasdaq	5007.41	4775.36	4948.05	3.62%	-1.19%
S&P 500	2043.94	2065.30	2096.96	1.53%	2.59%
Russell 2000	1135.89	1130.84	1154.79	2.12%	1.66%
Global Dow	2336.45	2377.38	2339.71	-1.58%	0.14%
Fed. Funds rate target	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps
10-year Treasuries	2.26%	1.83%	1.84%	1 bps	-42 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

- **Employment:** The labor market cooled a bit following its strong run in March based on the latest information from the Bureau of Labor Statistics. Total nonfarm payroll employment added 160,000 new jobs in April--down 48,000 from the revised 208,000 in March. Employment increased in professional and business services, financial activities, and health care. Job losses occurred in government and mining. The unemployment rate remained unchanged at 5.0%. There were 7.9 million unemployed persons (virtually unchanged from March), while the number of long-term unemployed declined by 150,000 to 2.1 million in April. The labor force participation rate fell slightly to 62.8% from 63.0% in March. The average workweek increased to 34.5 hours from 34.4 hours in March. Average hourly earnings for all employees on private nonfarm payrolls increased by \$0.08 to \$25.53. Over the year, average hourly earnings have risen by 2.5%.
- **FOMC/interest rates:** The Federal Open Market Committee did not meet in May as the target range for the federal funds rate remained at 0.25% to 0.50%. However, the minutes from its April meeting seem to

Key Dates/Data Releases

6/1: ISM Manufacturing Index

6/3: Employment situation, international trade

6/7: Productivity and costs

6/8: JOLTS

6/10: Treasury budget

6/14: Retail sales, import and export prices

6/15: Producer Price Index, industrial production, FOMC meeting announcement

6/16: Consumer Price Index

6/17: Housing starts

6/22: Existing home sales

6/23: New home sales

6/24: Durable goods orders

6/27: International trade in goods

6/28: GDP

6/29: Personal income and outlays

indicate that the Committee will not hesitate to raise rates at its next meeting in June if warranted by favorable economic conditions.

- **Oil:** Crude oil prices continued pushing higher during May, as prices surged to over \$50 per barrel, only to fall back to \$48.83 per barrel by the close of the month. This is still higher than the April closing price of \$45.92 per barrel.
- **GDP/budget:** The second estimate of the GDP for quarter one revealed only a little better growth at 0.8%, compared to the first estimate of 0.5%. The increase from the first estimate is attributable to positive revisions to residential investment and exports with a decrease in private inventory investment. While this report is better than the first estimate, it is not indicative of significant economic expansion. The year-to-date federal deficit was \$355.0 billion in April, more than 25% higher than the deficit over the same period last year, despite a \$106.5 billion surplus in April. For the month, the government took in \$438.4 billion in receipts and paid out \$332.0 billion in expenditures. Compared to March, total receipts in April increased by \$210.6 billion, while government expenditures were \$3.9 billion lower than March's total outlays.
- **Inflation:** The latest inflation rate for the United States based on the Consumer Price Index is 1.1% through the 12 months ended April 2016 as published by the Bureau of Labor Statistics--still below the Fed's stated target rate of 2.0%. For April, the Consumer Price Index rose 0.4% from March. The index for all items less food and energy (core prices) increased 0.2% in April. Core prices rose 2.1% over the 12 months ended in April, compared to a 2.2% increase for the 12 months ended March. The Producer Price Index, which measures the prices companies receive for goods and services, rose 0.2% in April following a 0.1% decline in March. Prices for services edged up 0.1% for the month, while prices for goods rose 0.2% in April following a similar increase the prior month. Retail sales for goods and services increased 1.3% in April, which is 3.0% above April 2015. Retail trade sales were up 1.4% from March and up 2.7% from last year. Nonstore retailer sales (online sellers) were up 10.2% from April 2015, while gasoline stations were down 9.4% from last year. Personal income increased \$69.8 billion, or 0.4%, and disposable personal income (DPI) increased \$63.5 billion, or 0.5%, in April, according to the Bureau of Economic Analysis. Personal consumption expenditures (PCE) increased \$119.2 billion, or 1.0%. In March, personal income increased \$56.7 billion, or 0.4%, DPI increased \$49.6 billion, or 0.4%, and PCE increased \$3.7 billion, or less than 0.1%, based on revised estimates.
- **Housing:** The housing sector gained momentum in April, influenced by low mortgage rates and solid employment gains. New home sales grew at a pace unseen in the last eight years, jumping 16.6% for the month compared to March. Prompted by increasing demand and limited supplies, the median sales price for new homes increased 9.7% from a year earlier to \$321,100. With roughly 243,000 new homes available for sale, the supply is down to 4.7 months compared to 5.5 months in March. Sales of existing homes also increased in April, but not at quite the pace as new home sales. Existing home sales increased 1.7% in April to an annual rate of 5.45 million compared to 5.36 million in March. Existing home sales are up 6.0% from a year ago. The median existing-home price for all housing types in April was \$232,500, up 6.3% from April 2015. The 2.14 million existing homes available for sale represents a supply of 4.7 months, a slight increase from the 4.4-month supply in March. Single family home starts increased 6.6% in April as did the number of building permits issued, which increased 3.6% for the month.
- **Manufacturing:** Manufacturing and industrial production have been relatively weak sectors in the economy for quite some time, although that trend may be changing. According to the Federal Reserve's report for April, industrial production increased 0.7% following a 0.6% decline in March. However, total industrial production in April was 1.1% below its level from a year earlier. Despite the recent increase in industrial production, manufacturers were not overly enthused as reflected in a couple of purchasing managers' indexes. The Markit U.S. Manufacturing Purchasing Managers' Index™ was 50.8 in April, down from 51.5 for March. The Institute for Supply Management PMI for April also came in at 50.8%, falling 1.0 percentage point below its March reading. Durable goods orders increased 3.4% for April, following a 0.8% increase in March. April's gain in new orders for manufactured goods was led by an 8.9% increase in new orders for transportation equipment. Excluding transportation, durable goods orders were up 0.4% for the month. Year-to-date, new orders for durable goods are up 0.8%.
- **Imports and exports:** Based on the advance report from the Census Bureau, the international trade in goods deficit grew to \$57.5 billion in April versus a revised deficit of \$55.6 billion in March. The trade in goods deficit for April is reflective of \$119.3 billion of exports and \$176.8 billion of imports. Based on advance figures, the trade in goods deficit for the first four months of 2016 sits at \$239.0 billion. Rising fuel prices influenced the price index for both imports and exports in April, according to the Bureau of Labor Statistics. Prices for goods manufactured abroad and purchased here (import prices) rose 0.3% for the month following a comparable increase in March. Export prices for goods made here but sold abroad increased 0.5% in April. This is the first monthly increase in export prices since last May.

- **International markets:** Greece and its creditors were able to reach a new deal that allows the economically embattled country to receive new loans while outlining terms for future debt relief. A U.S. bipartisan congressional bill was introduced that would allow Puerto Rico to restructure its \$70 billion debt. The proposed legislation would not involve federal funding, but would allow the island to write down some of its debt. In an attempt to invigorate its sluggish economy, the Japanese prime minister has proposed a significant stimulus package. However, the 1.7% growth in the first quarter of Japan's GDP may increase resistance to that stimulus proposal.
- **Consumer sentiment:** The Conference Board Consumer Confidence Index® for May fell to 92.6 from April's revised 94.7 due to consumers rating current conditions less favorably than in April. On the other hand, the University of Michigan's Index of Consumer Sentiment increased to 94.7 in May, compared to 89.0 for the prior month. There have been only four prior months since January 2007 in which the Index of Consumer Sentiment was higher than in May 2016.

Eye on the Month Ahead

Looking ahead, June may prove to be a pivotal month for the rest of the year. Will the current economic trends be sufficient to prompt the Fed to raise interest rates in June for the first time this year? Also scheduled for June is the vote over the UK's membership in the European Union. The European Central Bank meets in June, as does the Organization of the Petroleum Exporting Countries--each event capable of impacting the economy and equities markets of the United States and several foreign nations.

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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