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Market Month: August 2016

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

With no Federal Open Market Committee meeting and little news to jar the markets, the lazy, hazy days of August seemed to lull investors into a state of lethargy. Trading was light and volatility, limited. Despite the fact that several of the indexes tracked here posted new highs during the month, weekly changes shifted up and down within a narrow range. The month's end saw mixed results, with large caps losing whatever momentum they had gained, while technology, small caps, and international stocks posted respectable monthly gains.

Long-term bond yields also showed limited movement over the month, ending 13 basis points higher than where they started. The price of gold (COMEX) slumped, selling at \$1,312.20--about \$46 lower than July's closing price of \$1,357.90.

Market/Index	2015 Close	Prior Month	As of 8/31	Month Change	YTD Change
DJIA	17425.03	18432.24	18400.88	-0.17%	5.60%
Nasdaq	5007.41	5162.13	5213.22	0.99%	4.11%
S&P 500	2043.94	2173.60	2170.95	-0.12%	6.21%
Russell 2000	1135.89	1219.94	1239.91	1.64%	9.16%
Global Dow	2336.45	2411.26	2445.17	1.41%	4.65%
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%	1.45%	1.58%	13 bps	-68 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 Bureau of Labor Statistics reported that 255,000 new jobs were added in July, while the unemployment rate remained at a relatively low 4.9% (7.8 million unemployed). For the month, job gains occurred in professional and business services, health care, and financial activities. Average hourly earnings for all employees on private nonfarm payrolls increased by \$0.08 to \$25.69 in July. Over the year, average hourly earnings have risen by 2.6%.
- **FOMC/interest rates:** Since there was no FOMC meeting in August, investors carefully scrutinized Fed Chair Janet Yellen's remarks at a late-month event in Jackson Hole, Wyoming. The highlight of her presentation was the statement that, "in light of the continued solid performance of the labor market and our outlook for economic activity and inflation, I believe the case for an increase in the federal funds rate has strengthened in recent months."
- **Oil:** After rising sharply throughout the month on speculation that oil-producing countries would agree to cut production, oil prices fell back at month's end due to both a strong dollar and reports that U.S. reserves had increased more than expected, to a record high.

Key Dates/Data Releases

9/1: ISM Manufacturing Index, productivity and costs

9/2: Employment situation, international trade

9/6: ISM Non-Manufacturing Index

9/7: JOLTS, Fed "beige book"

9/13: Treasury budget

9/14: Import and export prices

9/15: Producer Price Index, retail sales, industrial production

9/16: Consumer Price Index

9/20: Housing starts

9/21: FOMC meeting announcement

9/22: Existing home sales

9/23: PMI Manufacturing Index

9/26: New home sales

9/27: Consumer confidence

9/28: Durable goods orders

9/29: GDP, international trade in goods

9/30: Personal income and outlays (for August)

- **GDP/budget:** According to the second estimate released by the Bureau of Economic Analysis, the gross domestic product increased at an annual rate of 1.1% in the second quarter of 2016. July's advance estimate had the second-quarter GDP increasing by 1.2%. The increase in real GDP in the second quarter primarily reflected positive contributions from personal consumption expenditures (PCE or consumer spending) and exports that were partly offset by negative contributions from private inventory investment, residential fixed investment, state and local government spending, and nonresidential fixed investment. Imports (a subtraction in the calculation of GDP) increased. The budget deficit through the first 10 months of the fiscal year totaled \$513.7 billion--about 10% higher than the deficit over the same period last year (\$465.5 billion).
- **Inflation:** Following a mundane report showing that producer prices fell 0.4% in July, the Consumer Price Index remained unchanged in July after rising each of the previous 4 months. Over the prior 12 months, the CPI rose 0.8%. Energy prices dropped 1.6% from June after advancing each of the previous 4 months. The index for all items less food and energy increased a scant 0.1%--the smallest increase since March 2016.
- **Housing:** The housing market continued to show momentum during the heat of the summer. The Census Bureau reported sales of new single-family homes increased 12.4% compared to June, and were 31.3% above July 2015. The median sales price of new houses sold in July 2016 was \$294,600; the average sales price was \$355,800. The seasonally adjusted estimate of new houses for sale at the end of July was 233,000, representing a supply of 4.3 months at the current sales rate. On the other hand, lack of inventory in many parts of the country has been curtailing the sale of existing homes, reported the National Association of Realtors®. Total existing home sales fell 3.2% to a seasonally adjusted annual rate of 5.39 million in July, down from 5.57 million in June. For only the second time in the last 21 months, sales are now below (1.6%) a year ago (5.48 million). With inventory at a premium, the lack of affordable homes for sale is discouraging prospective buyers despite low mortgage rates. The Census Bureau also reported that housing starts were up 2.1% in July, while building permits and privately owned completions were down 0.1% and 8.3%, respectively.
- **Manufacturing:** The manufacturing sector seems to be showing signs of life. According to the Federal Reserve's latest report, industrial production rose 0.7% in July after moving up 0.4% in June. The advance in July was the largest for the index since November 2014. Manufacturing output increased 0.5% in July for its largest gain since July 2015. Capacity utilization for the industrial sector, a measure of how much factory capacity is in use, increased 0.5 percentage point in July to 75.9%, a rate that is 4.1 percentage points below its long-run (1972-2015) average. Another sign of good news on the manufacturing front: new orders for durable goods (expected to last at least three years) jumped 4.4% in July after falling 4.2% in June, reported the Census Bureau. Shipments increased by 0.2% for the month, while factory inventories, down for the past six months, gained 0.3% over June. And finally, both the Markit U.S. Manufacturing Purchasing Managers' Index™ and the PMI® from the Institute for Supply Management posted upticks for July; however, the ISM PMI's growth was slower than the previous month. The Markit PMI™ registered 52.9 for July, up from 51.3 in June. And the ISM PMI registered 52.6%, down 0.6 percentage point from the previous month. A reading over 50% indicates growth.
- **Imports and exports:** The prices of imported goods continued to rise in July, moving up 0.1% following a 0.6% increase in June. Prior to July, import price increases were driven by rising fuel prices. In contrast, in July, nonfuel prices led the advance while fuel prices recorded a decrease. Nevertheless, import prices have fallen 3.7% over the last 12 months. Prices for exports rose 0.2% after increasing 2.4% over the 3 previous months. However, for the last 12 months, export prices have declined 3.0%.
- **International markets:** Early in the month, Japan approved a \$274 billion stimulus package, which included a payment of approximately \$147 to each of about 22 million low-income workers. Also, in the wake of the Brexit vote, the Bank of England cut interest rates to 0.25% and introduced a series of new measures designed to stimulate growth, citing as rationale a potentially faster rise in inflation due to the drop in the pound. Later in the month, the UK reported an uptick in retail sales due to its weak currency, which seemed to be attracting foreign consumers. In China, further evidence of an economic slowdown was reported in weakening industrial production and retail sales.
- **Consumer sentiment:** The Conference Board Consumer Confidence Index® improved to 101.1 in August from 96.7 in July, the highest level in nearly a year. "Consumers' assessment of both current business and labor market conditions was considerably more favorable than last month," said Lynn Franco, Director of Economic Indicators at The Conference Board, in the August 30 news release.

Eye on the Month Ahead

As U.S. investors arise from their summer snooze, eyes will focus on the upcoming jobs report due this week, followed by the Federal Open Market Committee meeting later this month, and the final second-quarter GDP figures coming at month's end. Have economic conditions improved enough to warrant a tightening? Time will tell. International investors will also keep watchful eyes on monetary policy,

as the Bank of Japan, the Bank of England, and the European Central Bank all hold meetings this month. Finally, OPEC and non-OPEC oil producers are scheduled to meet in Algeria toward month's end, the outcome of which may influence both oil prices and energy stocks.

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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