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Market Month: May 2017



The Markets (as of market close May 31, 2017)

May provided a bumpy ride for investors. However, by the end of the month, each of the indexes listed here posted monthly gains with the exception of the Russell 2000, which lost over 2.0%. Technology shares continued to climb as the Nasdaq climbed 2.50% in May over April and has risen over 15% since the start of the year. Despite terrorist attacks, mundane oil prices, a rocky first quarter in Washington, and a slowdown in economic growth, U.S. stocks closed the month in positive territory, spurred by generally favorable quarterly corporate earnings reports. May saw the Dow and S&P 500 post monthly gains for the second consecutive month, while the Nasdaq increased in value for the seventh month in a row. Long-term bond prices rose in May over April, evidenced by the falling yield on 10-year Treasuries.

By the close of trading on May 31, the price of crude oil (WTI) was \$48.63 per barrel, down from the April 28 price of \$49.19 per barrel. The national average retail regular gasoline price was \$2.406 per gallon on the last day of May, down from the May 1 selling price of \$2.411 but \$0.138 more than a year ago. The price of gold increased by the end of May, closing at \$1,271.40 on the last trading day of the month, up from its April 28 price of \$1,269.50.

Market/Index	2016 Close	Prior Month	As of May 31	Month Change	YTD Change
DJIA	19762.60	20940.51	21008.65	0.33%	6.31%
NASDAQ	5383.12	6047.61	6198.52	2.50%	15.15%
S&P 500	2238.83	2384.20	2411.80	1.16%	7.73%
Russell 2000	1357.13	1400.43	1370.21	-2.16%	0.96%
Global Dow	2528.21	2731.15	2758.92	1.02%	9.13%
Fed. Funds	0.50%-0.75%	0.75%-1.00%	0.75%-1.00%	0 bps	25 bps
10-year Treasuries	2.44%	2.28%	2.20%	-8 bps	-24 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.

Last Month's Economic News

- **Employment:** The employment sector picked up the pace in April following a weak March. There were 211,000 new hires in April in contrast to March's revised total of only 79,000. For April, employment growth occurred in leisure and hospitality (+55,000), food services and drinking places (+26,000), health care and social assistance (+37,000), and professional and business services (+39,000). The unemployment rate dipped to 4.4% — the lowest rate since May 2001. Over the year, the unemployment rate has declined by 0.6 percentage point, and the number of unemployed has fallen by 854,000. There were 7.056 million unemployed persons in April (7.202 million in March). The labor participation rate remained at 62.9%. The average workweek was 34.4 hours in April. Average hourly earnings increased by \$0.07 to \$26.19, following a \$0.05 increase in March. Over the last 12 months ended in April, average hourly earnings have risen by \$0.65, or 2.5%.

Key Dates/Data Releases

6/2: Employment situation, international trade

6/6: JOLTS

6/12: Treasury budget

6/13: Producer Price Index

6/14: Consumer Price Index, retail sales, FOMC meeting release

6/15: Import and export prices, industrial production

6/16: Housing starts

6/21: Existing home sales

6/23: New home sales

6/26: Durable goods orders

6/28: International trade in goods

6/29: GDP

6/30: Personal income and outlays

- **FOMC/interest rates:** The Federal Open Market Committee conceded that consumer spending may have slowed in the first quarter, prompting the Committee to leave interest rates unchanged at 0.75%-1.00%. However, labor has remained strong, nearing full employment, while a dip in consumer spending and consumer prices was deemed transitory by the Committee. Continued strength in employment and increases in consumer spending and inflation next month may prompt the FOMC to consider a rate increase when it next meets in June.
- **GDP/budget:** Expansion of the U.S. economy slowed over the first three months of 2017. According to the Bureau of Economic Analysis, the first-quarter 2017 gross domestic product grew at an annualized rate of 1.2%. The fourth-quarter 2016 GDP grew at an annual rate of 2.1%. The first-quarter GDP reflected positive contributions from nonresidential fixed investment, exports, residential fixed investment, and personal consumption expenditures that were partly offset by negative contributions from private inventory investment, federal government spending, and state and local government spending. Imports, which are a subtraction in the calculation of the GDP, increased. An indicator of inflationary trends, the price index for gross domestic purchases increased 2.6% in the first quarter, compared to an increase of 2.0% in the fourth quarter. As to the government's budget, the federal deficit through the first eight months of fiscal 2017 was \$344 billion — \$8 billion less than the deficit over the same period last year. For the month of April, the government realized a budget surplus of \$182.4 billion, which is \$76 billion more than the April 2016 surplus.
- **Inflation/consumer spending:** Inflation, as measured by personal consumption expenditures, picked up in April. For the 12 months ended in April 2017, the personal consumption expenditures price index expanded at a rate of 1.7%. For April, personal income increased 0.4% over March. Disposable personal (after-tax) income increased 0.4%. Personal consumption expenditures (the value of goods and services purchased by consumers) also increased 0.4% for the month. The prices companies receive for goods and services showed improvement in April from March, as the Producer Price Index increased 0.5% in April following a 0.1% dip the prior month. Year-over-year, producer prices have increased 2.5%. In April, energy prices climbed 0.8% while food prices increased 0.9%. The PPI less food and energy increased 0.4% for the month and has risen 1.9% over the last 12 months. Consumer prices, which retreated in March, increased 0.2% in April. For the year, consumer prices are up 2.2%. Core prices, which exclude volatile food and energy, increased 0.1% for the month and have climbed 1.9% since April 2016.
- **Housing:** The housing sector, which had showed strength over the first three months of 2017, slowed considerably in April. Existing home sales plunged 2.3% to a seasonally adjusted annual rate of 5.570 million, down from March's revised annual rate of 5.700 million. Existing home sales are only 1.6% ahead of the sales pace from a year ago. The median sales price for existing homes rose to \$244,800 from the March price of \$236,400. Total housing inventory at the end of April climbed 7.2% to 1.93 million existing homes available for sale (9.0% lower than a year ago). Sales of newly constructed homes also dropped in April, according to the Census Bureau. Sales of new single-family homes fell 11.4% in April to an annual rate of 569,000 — down from March's revised rate of 642,000. The median sales price of new houses sold in April was \$309,200 (\$318,700 in March), while the average sales price was \$368,300 (\$388,200 in March). The seasonally adjusted estimate of new houses for sale at the end of April was 268,000. This represents a supply of 5.7 months at the current sales rate.
- **Manufacturing:** According to the Federal Reserve, industrial production ticked up 1.0% in April. Manufacturing output increased 1.0% following a 0.4% decline in March. Manufacturing gains were led by production of motor vehicles, business equipment, and consumer goods. The indexes for mining and utilities posted gains of 1.2% and 0.7%, respectively. Total industrial production for April was 2.2% above its year-earlier level. Capacity utilization increased 0.6 percentage point to 76.7%, which is 3.2 percentage points below its long-run average. As for durable goods, the Census Bureau report reveals that new orders dropped 0.7% in April following a 2.3% revised increase in March. Excluding the volatile transportation segment, new durable goods orders fell 0.4%. Orders for core capital goods (excluding defense and transportation) had no change from March, but are up 2.9% over the past 12 months.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap grew by \$2.5 billion in April. The overall trade deficit was \$67.6 billion, up from March's deficit of \$65.1 billion. Exports declined 0.9% to \$125.9 billion. Imports increased by 0.7% to \$193.4 billion in April. The prices for U.S. imports of goods showed strength in April following a weak March. Import prices jumped 0.5% for the month, led by a 1.6% increase in petroleum prices. U.S. export prices rose 0.2% after advancing a revised 0.1% in March. Export prices haven't recorded a monthly decline since the index fell 0.8% in August 2016.
- **International markets:** The election of Emmanuel Macron as France's president was greeted favorably by eurozone investors early in May. Despite the tragic terrorist attack in Manchester, England, investors maintained a "steady-as-she-goes" approach with moderate trading throughout the month. OPEC and Russia agreed to extend the cut in oil output. However, oil prices haven't climbed appreciably as

investors apparently were hoping for deeper cuts than those announced. Moody's Investors Service cut China's sovereign credit rating for the first time since 1989 on the premise that the country's financial strength is expected to weaken as debt continues to rise and the economy slows.

- **Consumer sentiment:** Consumer confidence is holding steady in May. The Conference Board Consumer Confidence Index® for May fell slightly to 117.9 from April's 119.4. While consumers continued to express optimism about both the current state of the economy and its future, their enthusiasm has waned some from earlier in the year. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment also dropped marginally to 97.1 in May from 97.6 in April.

Eye on the Month Ahead

Economic signs were mixed last month, so it isn't certain that the FOMC will raise interest rates when it meets in June. The final GDP figures for the first quarter are out in June. Consumer spending has been relatively weak through much of the first part of 2017, causing inflation to slow a bit.

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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