Market Insights for Week Ending June 17, 2016

Mike Hengehold

Hengehold Capital Management was invited to join 150 of the nation's top Independent Registered Investment Advisory firms at the Explore Conference last week. Some of the nation's top economic and political leaders, including Condoleezza Rice, Frank Luntz, Liz Ann Sonders and Jeffrey Kleintop, discussed the key forces driving the world's financial markets. The group was particularly helpful in identifying expected and alternate scenarios for financial markets through various national and global political outcomes.

Unfortunately the markets misbehaved last week. U.S. stocks, as measured by the Russell 3000 (IWV) lost about 1.15%. Developed foreign markets (EFA) had an even tougher week losing approximately 2.77% and emerging markets (EEM) dropped approximately 2.07%.

While stocks were being tossed around, bonds, as measured by the Barclays US Aggregate Index (AGG) were about flat for the week gaining a very modest .05%. This ability for bonds (and other low-correlation asset classes) to maintain value, in an otherwise difficult market, is why it is important to hold them in a diversified portfolio through market cycles, and especially when equities are expensive and more subject to correction. (Note: performance is based on the change in net asset value.)

Pressure on the markets last week was rooted primarily in the fear that this week's Brexit vote in Great Britain may result in a "leave" decision. Most analysts agree the short term impact of such a move would be negative for the world economy. Even if the decision is made to leave, the effects should be temporary as far as the U.S. economy is concerned.

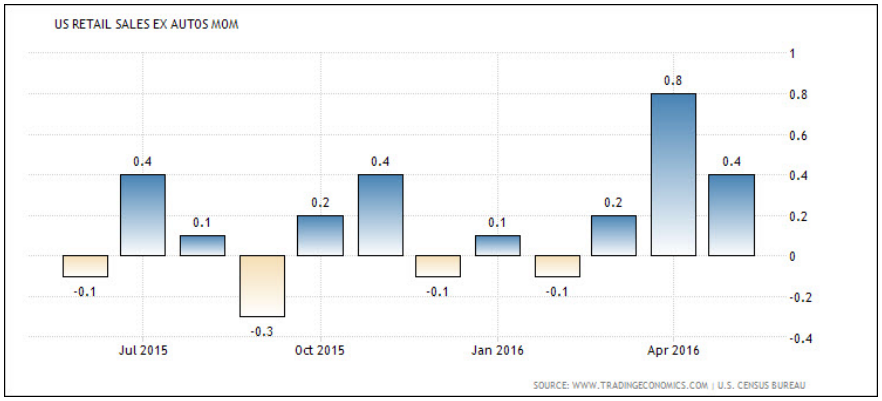
Also putting pressure on the markets last week was the fact that the Fed decided not to raise its benchmark interest rate. In the past, investors have reacted favorably to this type of announcement. However, last week's negative reaction may be a sign that investors are experiencing more concern over the Fed's doubts. Or it may have just served to magnify the current uncertainty surrounding the Brexit vote.

Many economists expect Britain to stay in the EU, and if that should be the case, the Brexit headwinds should subside. Thus, we believe that the markets will begin to reflect the improving fundamentals being experienced by many countries around the world.

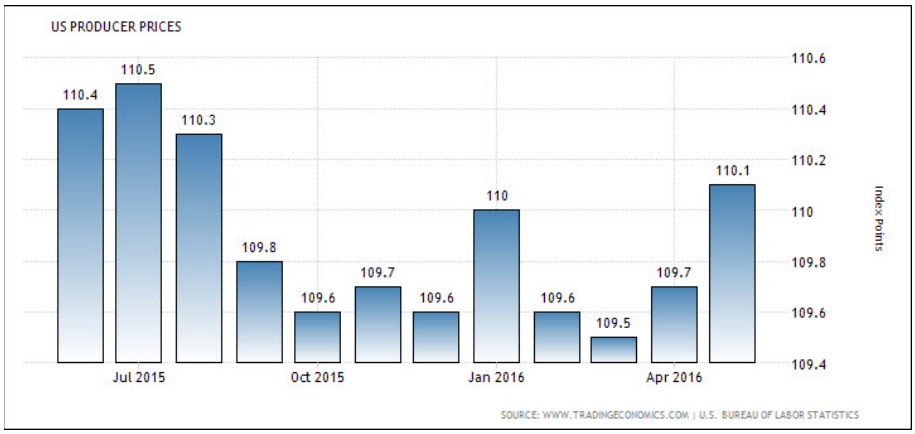
Last Week's Headlines

- The Federal Open Market Committee held interest rates at their current range of 0.25%-0.50% following its meeting last week. The Committee noted that, while growth in economic activity has picked up and household spending has strengthened, the pace of improvement in the labor market slowed, job gains diminished, and inflation continues to run below the Committee's 2.0% longer-run objective. Essentially reiterating a common theme of late, Chair Janet Yellen stated, "We continue to expect that the evolution of the economy will warrant only gradual increases in the federal funds rate. We expect the rate to remain, for some time, below levels that are anticipated to prevail in the longer run because headwinds weighing on the economy mean that the interest rate needed to keep the economy operating near its potential is low by historical standards."

- According to the latest report from the Census Bureau, consumers are spending more as retail and food services sales increased in May over April. Total retail sales and services came in at $455.6 billion in May, 0.5% over April and 2.5% ahead of May 2015. Retail trade sales were up 0.4% from April, and are up 2.0% from last year.



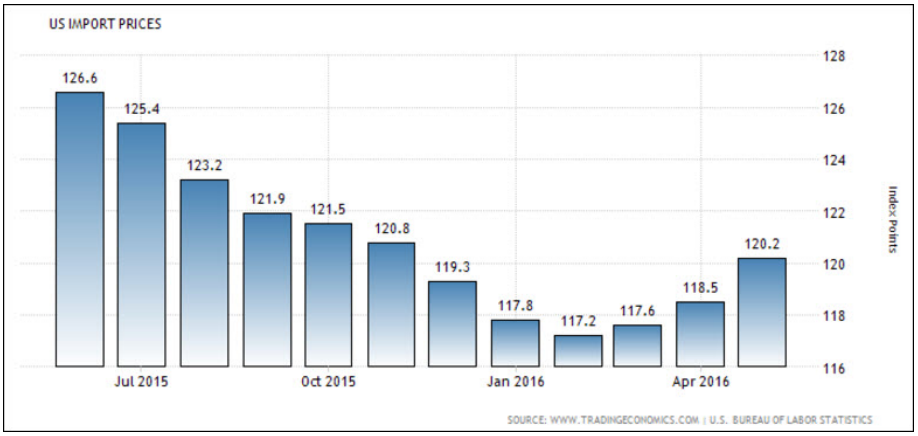
- Increasing energy costs are pushing the prices manufacturers receive for goods and services higher. The Producer Price Index rose 0.4%, in May following a 0.2% gain in April. In May, over 60% of the index gain can be traced to prices for goods, which climbed 0.7%. Prices for services moved up 0.2%. Prices less foods, energy, and trade services edged down 0.1% in May after rising 0.3% in April. For the 12 months ended in May, the price index less foods, energy, and trade services increased 0.8%.



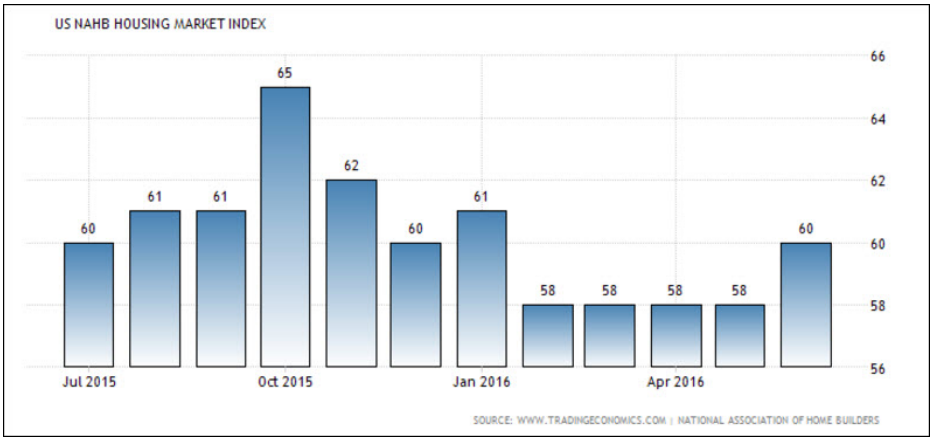
- Despite gains in consumer spending, the prices consumers are paying haven't moved much. The Consumer Price Index for May showed prices increased a scant 0.2% over April (0.4% increase), while the core prices, excluding food and energy, also inched up 0.2%. Food prices fell 0.2% while energy prices increased 1.2%, reflective of a rise of 2.3% in gasoline prices. Over the last 12 months, the all items index rose 1.0%, while the index for all items less food and energy rose 2.2%.

- In the week ended June 11, the advance figure for seasonally adjusted initial unemployment insurance claims was 277,000, an increase of 13,000 from the previous week's unrevised level. The advance seasonally adjusted insured unemployment rate increased 0.1 percentage point to 1.6% for the week ended June 4. The advance number for seasonally adjusted insured unemployment during the week ended June 4 was 2,157,000, an increase of 45,000 from the previous week's revised level.

- Driven by rising oil prices and a weakening dollar, both import and export prices increased in May over April. Prices for U.S. imports increased 1.4% following advances of 0.7% in April and 0.4% in March. U.S. export prices advanced 1.1% in May after rising 0.5% the previous month.



- Home-builder sentiment improved in June as the National Association of Home Builders Housing Market Index rose to 60 after four straight months at 58. Builders expressed renewed confidence in the market for newly constructed single-family homes in June. According to the NAHB report, builders are seeing more traffic and committed buyers. Breaking down index components, the future sales index gained 5 points to 70, future sales increased 3 points, and present sales jumped 1 point to 64.



- Low mortgage rates and steady job growth have spurred activity in the housing market. However, a lack of inventory and rising prices have kept some would-be homebuyers away. Evidence of this can be seen in the housing starts (the beginning of construction) report for May, which saw privately owned housing starts fall 0.3% to an annual rate of 1,164,000.

Eye on the Week Ahead

The housing market is back in focus this week as May's figures on existing home sales and new home sales are released. In April, new home sales hit their highest rate since January 2008, while sales of existing homes increased by almost 2% from March. May's figures are expected to continue to show progress, yet they may not approach the robust growth made in April. Internationally, June 23 marks the date Britons vote on the referendum to determine whether their country remains in the European Union or "Brexit."

Key Dates for Reports and Data Releases

6/22: Existing home sales
6/23: New home sales
6/24: Durable goods orders, consumer sentiment

Weekly Focus – Think About It

"Don't spend the money on possessions; spend it on experiences – family vacations, dinner with friends and family. You will create long lasting memories versus items that break or get discarded."
Jonathan Clements, Columnist, Wall Street Journal

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Additional Notes:

- The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- Past performance does not guarantee future results.
- You cannot invest directly in an index.
- Consult your financial professional before making any investment decisions.

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