MarketUpdate

Mixed returns in June cap strong second quarter

Large-cap equities did well in June, even as technology stocks ran into turbulence. The Dow Jones Industrial Average and S&P 500 Index posted solid gains of 1.74 percent and 0.62 percent, respectively. But the technology-laden Nasdaq suffered, finishing the month down 0.87 percent.

Quarterly results were better. The S&P 500 was up 3.09 percent, the Dow gained 3.95 percent, and the Nasdaq climbed 4.16 percent. Year-to-date, the Dow and S&P 500 have risen a strong 9.34 percent and 9.35 percent, and the Nasdaq is up an impressive 14.71 percent. The three indices remain strong on a technical basis as well.

Earnings growth continues to support the market. According to FactSet, as of June 30, the S&P 500's estimated earnings growth rate for the second quarter is 6.6 percent.

The MSCI EAFE Index, which represents the stocks of developed markets, declined 0.18 percent in June but managed a 6.12-percent uptick for the quarter. The MSCI Emerging Markets Index posted a 1.07-percent return for the month and a 6.38-percent gain for the quarter. Year-to-date, the EAFE is up 13.81 percent, and emerging markets have soared 18.60 percent. Both indices remained above their technical trend lines for the month and quarter.

Turning to fixed income, the Bloomberg Barclays Aggregate Bond Index declined 0.10 percent in June. But it returned 1.45 percent for the quarter and is up 2.27 percent year-to-date. The Bloomberg Barclays U.S. Corporate High Yield Index fared better, gaining 0.14 percent in June and 2.17 percent for the quarter.

Economic data supports growth

The first-quarter estimate of gross domestic product growth was revised upward to 1.4 percent. Positive revisions to consumption figures—from 0.3 percent to 1.1 percent—were major drivers of improved growth.

Consumer income and spending rose 0.4 percent in April. Data toward the end of June was less positive, though, showing strong income growth but a decline in spending to 0.1-percent growth. The drop was due to lower gas prices—an overall positive—and moderating auto sales.

The May jobs report was also weak, with just 138,000 jobs created. But this may be due to a lack of qualified job seekers rather than a lack of jobs.

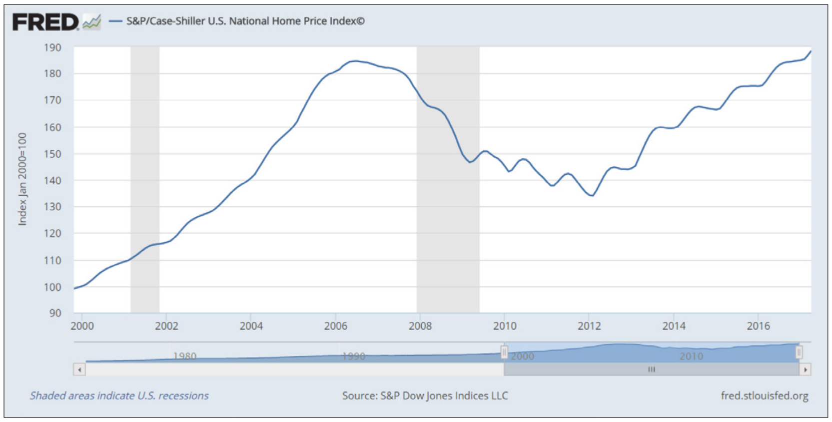
Despite some weakness in the data, the Federal Reserve raised the federal funds rate 25 basis points in June. The increase was largely interpreted as a sign of continued confidence in the U.S. economy.

Housing rebounds following a weak April

Perhaps the most encouraging data came from housing. Existing home sales for May were up 1.1 percent over April, though analysts had forecast a decline. New home sales also increased more than expected.

The S&P/Case-Shiller U.S. National Home Price Index showed prices surpassing pre-recession highs (see Figure 1). Despite the rising cost, home sales have continued to increase, signaling that many consumers are confident enough in the economy to make a long-term investment.

Figure 1. S&P Case-Shiller U.S. National Home Price Index, 2000–2017



Source: S&P Dow Jones Indices LLC

Business and consumer sentiment still strong

Business confidence was high in May, reflected in the increase in the ISM Manufacturing Index. Core durable goods orders, a proxy for business confidence, also increased. The ISM Non-Manufacturing Index was down in May, though in healthy expansionary territory.

Consumer confidence also remains high. The Conference Board Consumer Confidence Survey declined slightly in June, but its three-month average is the highest since 2001.

Political risks remain

The major domestic concern for markets has been the effort to revamp heath care. At this point, expectations are low, so downside risk is likely low as well.

Internationally, political risks remain—including concerns about North Korea—but progress has been made on economic issues. For example, the Italian banking system has started to resolve some of its problems.

Strong first half is a good sign for the rest of 2017

Risks remain and there are indications of slowing growth, but the outlook for the U.S. economy is positive. High levels of confidence and increased income and spending bode well for second-half growth. And, as growth speeds up around the world, the U.S. should benefit.

Nevertheless, we are bound to see volatility in the short and intermediate terms. A well-balanced portfolio designed to match objectives and hedge against the inevitability of less positive conditions in the future remains the best means to achieve financial goals.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

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