Market Update

May 2017 Review

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"I'm Still Standing"

As predictions of a market slowdown or even a correction have continuously hovered in the back of investors' minds, Elton John's hit song "I'm Still Standing" seemingly describes the current market rather well. The market is still standing, and to steal a couple of lines from the song's lyrics, it's "standing better than it ever did, looking like a true survivor." The rally since the November election is still going with May being the latest month to show solid gains.

One of the more significant political headlines this month was surprisingly outside of the U.S., as investors kept a close eye on the French elections. Marine Le Pen, leader of the far-right National Front, had been making waves in the election and vowed to take France out of the European Union if she was victorious at the polls. With Brexit occurring in 2016 and the United Kingdom beginning to take steps to actually remove itself from the European Union after invoking Article 50 of the Lisbon Treaty on March 29th, such a victory by Le Pen, and a subsequent move to exit the European Union, would have created volatility and uncertainty overseas, likely causing some turmoil in the markets. Fortunately, Emmanuel Macron won the French presidency in a landslide, bolstering the European Union and calming the anxious markets.

As indicated in last month's Market Update, there was plenty of optimism stemming from the positive earnings being posted by domestic companies. With the first quarter earnings reporting season complete and in the books, approximately 75% of S&P 500 companies beat their earnings per share estimates, while approximately 64% beat the mean sales estimate. Corporate profits rose 12% year-on-year in first-quarter 2017. Moreover, on the economic growth front, first quarter GDP Growth was revised up from 0.7% to 1.2%, in large part due to better consumer spending results than first estimated.

As a result of relatively good news in the month, equity indices finished positive yet again with the tech-intensive NASDAQ again leading the surge with a 2.5% gain. Year-to-date, the NASDAQ boasts an impressive 15.2% return. The S&P 500 Index was also positive at 1.4% bringing the year-to-date number to 8.7% while the Dow added 0.7% and has gained 7.5% thus far this year.

	May 2017	YTD
DJIA	0.71%	7.47%
S&P 500	1.41%	8.66%
NASDAQ	2.50%	15.15%
MSCI EAFE	3.67%	14.01%
MSCI Emerging Markets	2.96%	17.25%
Barclays Aggregate	0.77%	2.38%
Barclays Corp High Yield	0.87%	4.79%
US 10-Year Treasury Yield	2.21%	2.29%

Internationally, markets continued to soar, with the threat of France possibly leaving the European Union now in the rearview mirror. As a result, the MSCI EAFE Index gained an impressive 3.7% for the month, while the index is up 14.0% for the year. Emerging markets, as represented by the MSCI Emerging Market Index, show no signs of slowing down, adding another 3.0% in May. This brings the year-to-date return for the index to an amazing 17.3%.

Fixed income markets and investors alike are expecting the Federal Reserve to raise rates in June, which would mark the second increase this year. As indicated at the beginning of the year, Federal Reserve Chair Janet Yellen hinted at three rate hikes this year with another three in the cards for next year. However, the 10-year Treasury Yield fell a bit more in May, from about 2.3% at the end of April to 2.2% at the end of May, and has fallen somewhat steadily from a high of 2.6% on March 13th. As such, the Barclays Aggregate Bond Index rose 0.8% in May and has gained 2.4% so far in 2017. The corporate focused Barclays U.S. High Yield Index added a bit more in May, i.e. 0.9%, and has tacked on 4.8% since the start of the year, as investors continue to have an appetite for higher yielding securities.

As markets continue to climb, and have essentially done so since the November elections, it is fair to wonder when or if they may begin to slow down. While not all economic indicators have been positive, with May job numbers coming in well below expectations and GDP growth still somewhat disappointing, there are some data points which have boosted expectations and markets alike. In addition to the solid corporate earnings discussed above, consumer confidence has posted six straight readings above 110, and is holding steady at an unusually strong level, 117.9, in May. As consumers remain confident, and wage growth hovers around 2.5% on a year-over-year basis, the prospects for increased consumer spending look brighter. So while not all data can support the seemingly incessant rise in markets, at least there are a few data points which suggest that the markets aren't simply rising with no support.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, 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.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measures the value of residential real estate in 20 major U.S. cities.

Michigan Consumer Sentiment Index is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Conference Board's Consumer Confidence Index an index by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

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