Market Commentary | Q3 2017

Overview

Trading during the summer months is customarily slow, and the summer of 2017 proved no different. July kicked off the third quarter with equity markets enjoying noteworthy gains over their June closing values. Both the Dow (2.54%) and S&P 500 (1.93%) posted significant gains, as did the Global Dow (3.13%). The Nasdaq posted a very favorable 3.38% monthly increase. The yield on long-term bonds changed very little from June as investors seemed to focus on surging equities. Crude oil prices reached $50 per barrel by the end of July after closing June at $46 per barrel. The national average retail regular gasoline price was $2.269 per gallon on July 31, down from the June 26 selling price of $2.288.

Equities held their own in August, despite hurricanes that devastated several southern states and Puerto Rico, causing extraordinary economic loss. Conflicts both at home and abroad certainly influenced investor sentiment. Clashes between protestors in Charlottesville, Virginia, and scalating tensions between the United States and North Korea dominated the news. Nevertheless, a late-month rally in August pushed equities ahead of their July values. The Russell 2000 decreased from its July closing value as energy stocks plunged. The Dow and S&P 500 posted marginal gains, while the Nasdaq led the month ticking up 1.27%. Long term bond prices rose, with the yield on 10-year Treasuries falling to 2.12%, or 17 basis points below July's end-of-month yield.

Investors regained some of their confidence in September, pushing stocks ahead of their August closing values. Ultimately, investors saw the benchmark indexes make impressive gains by the end of the third quarter. The Nasdaq and the Russell 2000 posted gains in excess of 5.0%, followed closely by the Global Dow and the Dow. The S&P 500 trailed the other indexes listed here, yet still managed to increase by almost 4.0% over its second-quarter close. Crude oil jumped from $46.33 per barrel on the last day of June to $51.64 on the last business day of September. Gold, which had been climbing, fell at the end of the quarter, closing at $1,282.50 — still ahead of its June closing price of $1,241.10. Regular gasoline, which was $2.288 per gallon on June 26, soared to $2.508 on the 25th of September

International Markets

Inflation may be rising in Europe as eurozone wages increased at the fastest rate in over two years. Despite Brexit, the eurozone economy has grown stronger than expected, which could reduce the need for continued government stimulus. On the other hand, the Bank of Japan has kept its monetary policy intact with the short-term interest rate remaining at -0.1%. China's GDP grew 1.7% in the second quarter and is up 6.9% from a year earlier. For the year, benchmark stock indexes remain ahead in most foreign countries. The Nikkei 225 is up 6.2%, China's Shanghai Composite is ahead of last year by 8.0%, and the UK’s FTSE 100 is up 2.3% on the year.

The Economy

Employment: August saw 156,000 new jobs added, which is a little below the monthly average of 176,000 per month for 2017. The unemployment rate increased slightly to 4.4%, and has been either 4.3% or 4.4% since April. There were about 7.1 million unemployed persons in August. According to the Bureau of Labor Statistics, Hurricane Harvey had no discernable effect on the employment and unemployment data for August. Notable job gains occurred in manufacturing, construction, professional and technical services, health care, and mining. The labor participation rate was unchanged at 62.9%. The average workweek for all employees declined 0.1 hour to 34.4 hours in August. Average hourly earnings rose by $0.03 to $26.39. Over the 12 months ended in August, average hourly earnings have risen $0.65, or 2.5%.

FOMC/interest rates:

The Federal Open Market Committee met in September following its last meeting in July. Noting moderate economic activity, stagnant inflation, and the temporary effects of two damaging hurricanes, the FOMC left the target federal funds rate range at 1.00%-1.25%. Nevertheless, the Committee indicated that it will remain on schedule to raise interest rates at least once more this year.

GDP/Budget:

The gross domestic product expanded over the second quarter at an annual rate of 3.1%, according to the final estimate from the Bureau of Economic Analysis. The first-quarter GDP grew at an annualized rate of 1.2%. Gross domestic income, which estimates all income earned while producing goods and services, increased 2.9% in the second quarter compared to an increase of 2.7% in the first quarter.

As to the government's budget, the federal deficit for August was $107.7 billion, $64.8 billion higher than the July deficit. Through 11 months of the fiscal year, the deficit sits at $673.7 billion, which is about 8.8% above the deficit over the same period last year.

Inflation/consumer spending:

Upward price inflation continues to be weak. The personal consumption expenditures (PCE) price index (a measure of what consumers pay for goods and services) ticked up only 0.2% in August following a 0.1% bump in July. The core PCE (excluding energy and food) price index inched ahead 0.1% for the month. Personal (pre-tax) income increased 0.2% and disposable personal (after-tax) income gained 0.1% from the prior month. Personal consumption expenditures (the value of the goods and services purchased by consumers) also rose only 0.1%.

Consumer prices rose 0.4% in August, after recording a 0.1% gain in July. For the 12 months ended in August, consumer prices are up 1.9%, a mark that remains slightly below the Fed's 2.0% target for inflation. Core prices, which exclude food and energy, edged up 0.2% in August, and are up 1.7% since August 2016.

Prices companies receive for goods and services advanced 0.2% in August from July, according to the Producer Price Index. Year-over-year, producer prices have increased 2.4%. Prices less food and energy increased 0.1% for the month and are up 2.0% over the past 12 months.

Consumer sentiment:

The Conference Board Consumer Confidence Index® for September declined to 119.8 from July's revised 120.4. Not surprisingly, consumer confidence in the economy decreased considerably in Texas and Florida following the devastation caused by hurricanes Harvey and Irma. Consumers expressed growing confidence in current economic conditions, but were reticent about future economic prospects.

Housing:

Scant inventory and rising prices slowed sales of new and existing homes in August. Total existing-home sales slipped 1.7% for the month following a 1.3% drop in July. Over the last 12 months, sales of existing homes are up only 0.2%. The price of $258,300 but up 5.6% from the price last August. Inventory for existing homes declined 2.1% for the month and is now 6.5% lower than a year ago. The Census Bureau's latest report reveals sales of new single-family homes fell 3.4% in August to an annual rate of 560,000 — down from July's upwardly revised rate of 580,000. The median sales price of new houses sold in August was $300,200, 6.6% below the median price in July. The average sales price was $368,100 ($371,200 in July). The number of houses for sale increased at the end of August to 284,000 (274,000 in July), which represents a supply of 6.1 months at the current sales rate.

Manufacturing:

Industrial production declined 0.9% in August following six consecutive monthly gains. Hurricane Harvey is estimated to have reduced the rate of change in the total output by roughly 0.75 percentage point. Also impacted by Harvey, manufacturing output edged down 0.3% after increasing 0.1% in July. The manufacturing industries with the largest estimated storm-related effects were petroleum refining, organic chemicals, plastics materials, and resins. Mining output fell 0.8% in August after increasing 0.5% in July. The index for utilities dropped 5.5% as mild temperatures, particularly on the East coast, reduced the demand for air conditioning. New orders for manufactured durable goods increased 1.7% in August. This increase follows a sharp 6.8% drop in new orders in July. However, excluding the transportation segment, new durable goods orders increased 0.5%. Shipments of manufactured goods increased 0.3%, while unfilled orders remained virtually unchanged in August from July.

Imports and exports: The advance report on international trade in goods revealed that the trade gap narrowed by 1.4% in August over July. The goods trade deficit was $62,943 billion in August, compared to the $63,858 billion the prior month. Exports of goods were $128,870 billion in August ($128,601 billion in July) while August imports were $191,813 billion ($192,459 billion in July).

Market Performance

Index Performance for Period Ending 9/30/2017

US Equity Markets	Index	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
US Small Growth	Russell 2000 Growth TR	6.22	16.81	20.98	12.17	14.28	8.47
US Small Value	Russell 2000 Value TR	5.11	5.68	20.55	12.12	13.27	7.14
US Small Blend	Russell 2000 TR	5.67	10.94	20.74	12.18	13.79	7.85
US Mid Growth	Russell Mid Cap Growth TR	5.28	17.29	17.82	9.96	14.18	8.20
US Mid Value	Russell Mid Cap Value TR	2.14	7.43	13.37	9.19	14.33	7.85
US Mid Blend	Russell Mid Cap TR	3.47	11.74	15.32	9.54	14.26	8.08
US Large Growth	Russell 1000 Growth TR	5.90	20.72	21.94	12.69	15.26	9.08
US Large Value	Russell 1000 Value TR	3.11	7.92	15.12	8.53	13.20	5.92
US Large Blend	Russell 1000 TR	4.48	14.17	18.54	10.63	14.27	7.55
S&P 500	S&P 500 TR	4.48	14.24	18.61	10.81	14.22	7.44

US Fixed Income Markets	Index	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
US Multisector Bond	US Agg Bond TR	0.85	3.14	0.07	2.71	2.06	4.27
Intermediate	US Govt/Credit Interm TR	0.60	2.34	0.23	2.13	1.61	3.64
Short Term Bond	US Govt/Credit 1-3 Yr TR	0.34	1.06	0.66	1.05	0.91	2.09

International Markets	Index	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
Emerging Markets	MSCI EM PR USD	7.02	25.45	19.73	2.47	1.53	-1.07
Foreign Large Blend	MSCI EAFE PR USD	4.81	17.21	15.99	2.25	5.49	-1.52
World Blend	Barclays Global Aggregate TR	1.76	6.25	-1.26	1.30	0.48	3.31

Allocation Portfolios	Index	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
Target Date 2046-2050	S&P Target Date 2050 TR USD	4.43	14.09	16.53	8.36	10.96	5.36
Target Date 2036-2040	S&P Target Date 2040 TR USD	4.21	13.17	15.15	7.90	10.28	5.22
Target Date 2026-2030	S&P Target Date 2030 TR USD	3.60	11.46	12.79	7.07	9.17	5.02
Target Date 2016-2020	S&P Target Date 2020 TR USD	2.81	9.30	9.86	6.05	7.64	4.77
Target Date Income	S&P Target Date Retirement Income TR USD	2.06	6.17	5.37	4.14	4.60	3.89

Key Takeaways

- Another calendar quarter of gains for the major U.S. and foreign equity markets.
- The Federal Open Market Committee (FOMC) did not change the fed funds rate at its September meeting, but indicated it will raise the rate at least one more time by the end of the year.
- Final annualized GDP growth for Q2, 2017 was 3.1% following Q1's rate of 1.2%.
- U.S Inflation remains weak with consumer prices up 1.9% for the year ended 8/31/2017 which is below the FOMC's target of 2%. Europe's inflation may rise as wages have grown at the fastest rate in over 2 years. Europe's economic growth has been stronger than expected.
- Consumers expressed confidence in current economic conditions, but were somewhat reticent about their expectations for future economic growth.

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