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Market Month: January 2016

The Markets (as of market close January 29, 2016)

The start of 2016 for the equities markets may be described as rocky at best. Stunted by receding oil prices and a plummeting Chinese stock market, January began with stocks hitting the skids in a big way. A late-month rally fueled by an about-face in oil prices, some favorable earnings reports, the prospect of further stimulus from the European Central Bank, and Japan dropping interest rates to negative numbers spurred stocks higher toward the end of the month, but not enough to lift each of the indexes listed here out of negative territory year-to-date. The Russell 2000 and Nasdaq still have the most ground to make up to get to even, while the large-cap Dow and S&P 500 are about 5.0% off their values at the end of 2015.

The close of January saw bond prices rise as yields fell, evidenced by the 10-year Treasury yield which dropped below 2.0%. The price of gold (COMEX) increased by month's end, selling at $1,118.40--about $58 higher than December's end-of-month price of $1,060.50.

Market/Index	2015 Close	Prior Month	As of 1/29	Month Change	YTD Change
DJIA	17425.03	17425.03	16466.30	-5.50%	-5.50%
Nasdaq	5007.41	5007.41	4613.95	-7.86%	-7.86%
S&P 500	2043.94	2043.94	1940.24	-5.07%	-5.07%
Russell 2000	1135.89	1135.89	1035.38	-8.85%	-8.85%
Global Dow	2336.45	2336.45	2177.64	-6.80%	-6.80%
Fed. Funds	0.50%	0.50%	0.50%	0 bps	0 bps
10-year Treasuries	2.26%	2.26%	1.92%	-34 bps	-34 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.

The Month in Review

- **Employment:** The labor sector has remained relatively strong as nonfarm payrolls increased by 292,000 in December, while the unemployment rate held steady at 5.0%. According to the Bureau of Labor Statistics, the number of unemployed persons is 7.9 million, while the labor force participation rate for December is 62.6% (+0.1% compared to November) and the percentage of the total U.S. working-age population (age 16+) that is employed is 59.5%. The average hourly earnings for all private-sector employees fell by a cent to $25.24 in December. By the close of January, there were 2,268,000 continuing claims for unemployment insurance, as the insured unemployment rate hovered around 1.7%.
- **FOMC/interest rates:** Citing slowing economic growth since its last meeting, the Federal Open Market Committee voted to maintain interest rates at their current level. While noting positive economic trends in labor, household spending, and business fixed investment, inflation remains below the FOMC's target rate of 2.0%, while net exports continue to be soft.
- **Oil:** Oil prices fell significantly during the early part of the month, dropping below $30 per barrel (WTI),

Key Dates/Data Releases

2/1: ISM Manufacturing Index, personal income and outlays

2/5: Employment situation, international trade

2/9: JOLTS

2/10: Treasury budget

2/12: Retail sales

2/16: Housing starts, Producer Price Index, industrial production

2/19: Consumer Price Index

2/23: Existing home sales

2/24: New home sales, personal income and outlays

2/25: Durable goods orders

2/26: GDP, international trade in goods, personal income and outlays

likely influencing equities markets, which seemed to follow the downward trend. Nevertheless, despite a surplus of reserves, oil prices surged toward the end of January, closing the month at $33.74 per barrel. The national average retail regular gasoline price decreased for the fourth week in a row to $1.856 per gallon on January 25, 2016, $0.058 below the prior week's price and $0.188 under a year ago.

- **GDP/budget:** A strong dollar and lower oil prices slowed growth in the fourth quarter of 2015 to 0.7% following 3.9% and 2.0% growth in the second and third quarters, respectively. Three months into the U.S. government's fiscal year, the government's deficit is on the rise, up 22% at $215.6 billion for the month, according to the U.S. Treasury report for December. Part of the increase is due to the timing of outlays, without which the deficit would be up about 5%. However, disbursements for Medicare and Social Security are up a combined 7.1% compared to this time last year.
- **Inflation:** With oil prices remaining low and the dollar strong, inflation remained below the Fed's stated target rate of 2.0%. The Producer Price Index, which measures the prices companies receive for goods and services, fell 0.2% in December, dragged down by energy and food prices. Producer prices were down 1.0% from December 2014--the 11th straight year of decline from the prior year. The Consumer Price Index declined 0.1% in December. Over the last 12 months, the all items index increased only 0.7%. Retail sales also fell in December, down 0.1% from the prior month. For retailers, total sales increased only 2.1% for 2015, the smallest gain since 2009. The core personal consumption expenditures, relied upon by the Fed as an important indicator of inflationary trends, was down less than 0.1% in December.
- **Housing:** The housing market has been relatively strong for much of 2015. The latest figures from the National Association of Realtors® show that sales of existing homes rebounded in December by 5.46 million--an increase of 700,000 over November, making 2015 the best year of existing home sales since 2006. The median price for existing homes in December was $224,100--7.6% over December 2014, marking the 46th consecutive month of year-over-year gains. The number of new home sales in December increased 10.8% compared to the number of sales in November. The median sales price of new houses sold in December 2015 was $288,900, while the average sales price was $346,400, compared to $297,000 and $364,200, respectively, in November. Housing starts, on the other hand, fell back a bit in December, coming in at an annualized rate of 1.149 million--2.5% below November's figure.
- **Manufacturing:** Manufacturing and industrial production continue to be relatively weak sectors in the economy. The Federal Reserve's monthly index of industrial production declined 0.4% in December, due in part to drop-offs in utilities and mining. Business inventories fell 0.2% in November from October and sales dropped 0.2% during the same period. In addition, the latest report from the Census Bureau shows orders for all durable goods decreased $12.0 billion, or 5.1%, in December compared to November. Not surprisingly, inventories are up 0.5%, commensurate with decreased demand.
- **Imports and exports:** Global trade continued its slow pace as foreign markets are still affected by the strength of the dollar, which has driven up prices for foreign buyers. Based on the latest information from the Census Bureau, the U.S. trade balance narrowed by $2.2 billion in November, as exports fell 0.9% in the month to $182.2 billion, while imports also dropped 1.7% to $224.6 billion. Year-to-date, the goods and services deficit increased $25.2 billion, or 5.5%, from the same period in 2014. Exports decreased $99.0 billion, or 4.6%, while imports decreased $73.7 billion, or 2.8%. Import prices fell 1.2% in December, the largest monthly drop since August 2015, while exports fell 1.1% in December, and 6.5% for 2015--the largest decline since 1983.
- **International markets:** Amid an apparent economic slowdown, China's equities markets were slammed earlier in the month as money left the country, prompting the government to take steps to discourage the monetary exodus. The rest of Europe withstood China's lagging economy, helped by the prospect of more stimulus offered by the European Central Bank.
- **Consumer sentiment:** While the equities markets experienced a tough January, consumer confidence did not wane. The Conference Board Consumer Confidence Index® stood at 98.1 in January, while the University of Michigan's Index of Consumer Sentiment fell to 92.0 in January compared to 92.6 in December, primarily due to stock market downturns during the first month of 2016.

Eye on the Month Ahead

January was a tough month in the equities markets, both domestically and globally. Much of the early market decline has been in reaction to China's apparent economic slowdown and falling oil prices. Nevertheless, the market did rebound at the end of the month following escalating oil prices. In any case, the presidential primary season kicks off in February, which may influence investors' tendencies going forward.

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.

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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.

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