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Market Month: May 2018

The Markets (as of market close May 31, 2018)

Despite a sell-off on the last day of the month, equities held enough of their gains to post mostly positive month-over-month returns. The Trump administration imposed tariffs on steel and aluminum imports on Canada, Mexico, and the European Union. And, just before scheduled trade talks with China were to resume, President Trump announced that he would proceed with tariffs on Chinese imports and limit Chinese investment in U.S. tech companies. Investors feared retaliation from impacted countries could lead to an all-out trade war. Early in the month, signs of rising inflation sent large caps down, while small caps and tech stocks climbed. However, stocks recovered following the Fed's decision to maintain the current interest rate range. Throughout the month, stocks rallied, then slipped back, amid trade war fears, a few mediocre corporate earnings reports, and fear of rising price inflation.

Nevertheless, each of the indexes listed here posted monthly gains, with the exception of the Global Dow. The large caps of the Dow and S&P 500 closed the month of May in the black, with the S&P 500 outperforming the Dow by more than a full percentage point. The Nasdaq and the Russell 2000 led the way for the month, each gaining more than 5.0% over their April closing values. Those two indexes have also performed the best since the start of 2018. The Dow and the Global Dow, on the other hand, are still trying to catch up to their 2017 closing values.

By the close of trading on May 31, the price of crude oil (WTI) was $67.10 per barrel, down from the price of $68.57 per barrel on April 30. The national average retail regular gasoline price was $2.962 per gallon on May 28, up from the April 30 selling price of $2.846 and $0.556 more than a year ago. The price of gold decreased by the end of May, closing at $1,302.70 on the last trading day of the month, down from its price of $1,316.10 at the end of April.

Market/Index	2017 Close	Prior Month	As of May 31	Month Change	YTD Change
DJIA	24719.22	24163.15	24415.84	1.05%	-1.23%
NASDAQ	6903.39	7066.27	7442.12	5.32%	7.80%
S&P 500	2673.61	2648.05	2705.27	2.16%	1.18%
Russell 2000	1535.51	1541.88	1633.61	5.95%	6.39%
Global Dow	3085.41	3061.73	3001.96	-1.95%	-2.70%
Fed. Funds	1.25%-1.50%	1.50%-1.75%	1.50%-1.75%	0 bps	25 bps
10-year Treasuries	2.41%	2.95%	2.86%	-9 bps	45 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.

Last Month's Economic News

- **Employment:** Total employment rose by 164,000 in April after adding 103,000 new jobs in March. April's figures are down slightly from the average monthly gain of 191,000 over the prior 12 months. Notable employment gains occurred in professional and business services (54,000), manufacturing

Key Dates/Data Releases

6/1: Employment situation, PMI Manufacturing Index, ISM Manufacturing Index

6/5: JOLTS

6/6: International trade

6/12: Consumer Price Index, Treasury budget

6/13: FOMC meeting, Producer Price Index

6/14: Retail sales, import and export prices

6/15: Industrial production

6/19: Housing starts

6/20: Existing home sales

6/25: New home sales

6/27: Durable goods orders, international trade in goods

6/28: GDP

6/29: Personal income and outlays

(24,000), and health care (24,000). The unemployment rate slipped to 3.9%, with roughly 6.3 million eligible workers unemployed. The labor participation rate was little changed at 62.9% (62.8% in March). The employment-population ratio held at 60.4% in April (60.3% in March). The average workweek was unchanged at 34.5 hours for the month. Average hourly earnings increased by $0.04 to $26.84. Over the last 12 months, average hourly earnings have risen $0.67, or 2.6%.

- **FOMC/interest rates:** The Federal Open Market Committee maintained the federal funds target rate range at 1.50%-1.75% following its meeting in early May. Inflation is running at or near the Committee's target of 2.0%, the labor market has continued to strengthen, and economic activity has been rising at a moderate rate. However, according to the Committee, household spending has moderated. As to the timing and size of future interest rate adjustments, the Committee did not specifically indicate when the next rate hike would happen, but most experts suggest a likely rate increase could occur following the Committee's next meeting in June.
- **GDP/budget:** The second estimate of the first-quarter gross domestic product showed the economy expanded at an annual rate of 2.2%, according to the Bureau of Economic Analysis. The fourth-quarter GDP grew at an annualized rate of 2.9%. According to the report, after-tax corporate profits climbed at a rate of 5.9% after increasing 1.7% in the fourth quarter — likely due to new legislative corporate tax cuts. Consumer spending rose 1.0% in the first quarter after advancing 4.0% in the fourth quarter. Spending on durable goods, which had increased 13.7% in the fourth quarter, dropped 2.6% in the first quarter. The government budget had a surplus of $214.26 billion in April, largely due to annual income tax payments. The monthly deficit was $208.74 billion in March. The fiscal 2018 deficit (which began in October 2017) is $385.44 billion — up by about $41 billion, or 12%, from the deficit over the same period last year.
- **Inflation/consumer spending:** A surge in gas prices pushed consumer spending higher in April. Personal consumption expenditures jumped 0.6% for the month, the largest increase in 5 months. Consumer income climbed 0.3%, while disposable (after-tax) income increased 0.4% in April. Consumer prices inched up 0.2% last month, matching March's gain. Over the last 12 months, consumer prices rose 2,0%, and core prices (less food and energy) climbed 1.8%.
- The Consumer Price Index rose 0.2% in April after falling 0.1% in March. Over the last 12 months ended in April, consumer prices are up 2.5%. Core prices, which exclude food and energy, are up 2.1% for the year.
- Prices at the wholesale level expanded slightly in April. The Producer Price Index showed the prices companies receive for goods and services jumped 0.1% in April after climbing 0.3% in March. Year-over-year, producer prices have increased 2.6%. Prices less food and energy increased 0.2% for the month and are up 2.3% over the last 12 months.
- **Housing:** Residential sales are having a difficult time gaining traction, primarily due to a lack of inventory. Total existing-home sales fell 2.5% for April following a 1.1% gain in March. Year-over-year, existing home sales are down 1.4%. The April median price for existing homes was $257,900, which is 5.3% higher than the April 2017 price of $245,000. While inventory for all types of existing homes for sale rose 9.8% in April, it is 6.3% lower than a year ago. New home sales also fell in April, down 1.5% from their March total. The median sales price of new houses sold in April was $312,400 ($337,200 in March). The average sales price was $407,300 ($369,900 in March). Inventory increased from a supply representing 5.4 months — up slightly from the March rate of 5.3 months.
- **Manufacturing:** Industrial production edged up 0.7% in April, the same increase as in March. This marks the third consecutive monthly increase in industrial production. Manufacturing output rose 0.5% for the month, after not moving in March. Total industrial production has increased 3.5% over the last 12 months. The indexes for mining and utilities moved up 1.1% and 1.9%, respectively. Capacity utilization for the industrial sector moved up 0.4 percentage point in April. New orders for manufactured durable goods fell 1.7% in April following a 2.7% jump in March. For the year, new durable goods orders are up 9.6%.
- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap decreased by $0.4 billion in April from March. The deficit for April was $68.2 billion (the March deficit was $68.6 billion). April exports of goods fell $0.7 billion, while imports decreased $1.1 billion. For the month, total imports ($207.8 billion) far exceeded exports ($139.6 billion). Import prices increased 0.3% in April after falling 0.2% in March. For the year, import prices have increased 3.3%. Prices for exports advanced 0.6% in April and are up 3.8% for the year.
- **International markets:** Geopolitics influenced the world economy and financial markets in April. Cancellation of a proposed summit between the United States and North Korea, coupled with trade uncertainties between the United States and the European Union, Canada, Mexico, and China created uneasiness with investors. Both China and the United States declared increased tariffs on their respective imports only to see a truce called to allow for negotiations between the world's two largest

economies. However, just before the start of settlement talks, the United States made a surprise announcement to move forward with tariffs against China, possibly putting trade negotiations in jeopardy. Despite the trade issues, China's economy grew at an annualized rate of 6.8% in the first quarter. Political affairs in Italy and Spain contributed to falling equity values in Europe. Government upheaval had an impact on short-term bonds in Italy, where a massive sell-off sent prices tumbling and yields soaring. Convictions of high-level government officials in Spain prompted calls for a no-confidence vote in the present government.

- **Consumer confidence:** Consumer confidence, as measured by The Conference Board Consumer Confidence Index®, expanded in May following a modest decline in April. According to the report, consumers were more bullish in their views of present economic conditions and prospects for short-term economic growth.

Eye on the Month Ahead

There's a good chance the Fed could raise interest rates in June, which could impact the economy in general and stocks in particular. The Trump administration's foreign trade policy of imposing or increasing tariffs on foreign imports seems to be influencing investors more than favorable economic reports. Market volatility is likely to continue in June.

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. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

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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