

Domestic Equities Show Growth in May

Domestic equity markets perked up during the last few weeks of May, with the Nasdaq gaining the most ground over the month. Economic data reports have been mixed, but generally consistent with a pickup in growth, following a soft first quarter. During the last week of May, investors were processing an upwardly revised Gross Domestic Product (GDP) figure as well as news that the Federal Reserve remains on track for gradual increases in short-term interest rates in the months ahead.

	5/31/16 Close	4/29/16 Close	Change	Gain/Loss
DJIA	17,787.13	17,773.64	+13.49	+0.08%
NASDAQ	4,948.06	4,775.36	+172.70	+3.62%
S&P 500	2,096.95	2,065.30	+31.65	+1.53%
MSCI EAFE	1,671.49	1,693.18	-21.96	-1.28%

Performance reflects price returns as of 4:15 p.m. EDT on May 31, 2016.

First-quarter Real Gross Domestic Product was revised to show a 0.8% annual rate of growth, as moderate strength in consumer spending and homebuilding was offset, in part, by further contraction in energy exploration. Business fixed investment has been lackluster, but much of that weakness has been in the energy sector, which won't contract forever, according to Raymond James Chief Economist Scott Brown. Yet, outside of energy, many firms appear cautious, reluctant to expand, even though they have the means, he noted.

The job market has continued to tighten, while inflation pressures appear moderate. The Bureau of Economic Analysis report also showed that wages and salaries saw the biggest quarterly gain in almost two years, which coupled with competitive gas prices could be supportive of increases in consumer spending – a major component of GDP growth.

It's not clear yet when the Federal Reserve will raise rates next, though Chair Janet Yellen has indicated that policymakers still expect to raise rates (most likely, two small increases by year-end), provided economic growth remains moderately strong. The Fed's decision will be data-dependent, focusing largely on the job market and inflation outlook. However, the Fed is also aware that tighter monetary policy could induce unwanted reactions in global financial markets, according to Brown. In reality, the Fed

policy outlook isn't much different than it was in March, but market expectations now have shifted a little more in line with the view of Fed officials.

Uncertainty due to the upcoming presidential election also may cause some wariness among market players. Though Raymond James Chief Investment Strategist Jeff Saut believes the impact will be limited to particular industries and that the secular bull market is alive and well, barring a "black swan" event.

My team will continue to monitor the latest economic data and financial news and share the most relevant information with you.

Please feel free to call me if you have any questions. I look forward to speaking with you.

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