## Domestic stocks hit all-time highs in August

As summer comes to a close, the markets – as represented by the Dow Jones Industrial Average, Nasdaq Composite and the S&P 500 – reached new highs during August, putting all three major indices in uncharted territory. Steady economic growth, rising consumer spending and improving corporate earnings coming in better than expected were all key factors in helping drive the market.

| | 7/29/16 Close | 8/31/16 Close | Change | Gain/Loss |
|---|---|---|---|---|
| DJIA | 18,432.24 | 18,400.88 | -31.36 | -0.17% |
| NASDAQ | 5,162.13 | 5,213.22 | +51.09 | +0.99% |
| S&P 500 | 2,173.60 | 2,170.95 | -2.65 | -0.12% |
| MSCI EAFE | 1,689.12 | 1,688.95 | -0.17 | -0.01% |

Performance reflects price returns as of market close on August 31, 2016.

Below are additional thoughts on the factors that are influencing the domestic and global markets.

**Economy**

- Real GDP rose at a 1.1% annual rate in the second estimate for 2Q16, but underlying domestic demand rose 3.0%.
- Following a drawdown in inventories in recent quarters, we should see a rebuild and better production numbers in the second half of the year.
- Consumer spending, which accounts for about 70% of GDP, has been trending at a relatively strong pace into 3Q16, supported by solid growth in wage income.
- Job growth is expected to slow in the months ahead as the labor market tightens.
- A September rate hike will be data dependent, but many Federal Reserve policymakers appear to be leaning toward raising rates sooner rather than later. After raising rates, monetary policy will still be very accommodative and rate increases over the next couple of years are expected to be very gradual.

**Equity markets**

- As long as interest rates eventually rise as a result of improving fundamentals and economic data, it should bode well for the equity market as it transitions from an interest-rate-driven to an earnings-driven market.
- Earnings continue to come in better than expected with healthcare and technology leading the way.

- While oil prices dipped below $47 a barrel, energy exploration seems to have bottomed and the long-term outlook remains at $70+ per barrel, according to Raymond James energy analysts.
- In the near term, equity valuations are elevated, pointing to a potential pullback that could provide buying opportunities.

**Fixed income**

- Global investors continue to buy U.S. bonds, seeking both "safety" and positive yield.
- After Federal Reserve Chair Janet Yellen's speech from Jackson Hole, Treasury yields ticked up briefly; a reaction to the stronger possibility of a September rate hike.
- Long-term rates in the U.S. have been affected by global central bank monetary policy, and the high of nearly $180 billion per month in quantitative easing (not including the Fed) is expected to surpass that number in 2017.
- Retail Fixed Income Strategist Benjamin Streed stresses that although Treasury yields remain near lows, bonds act as a portfolio diversifier and provide a ballast against equity markets, so investors should stick to their long-term strategic asset allocations.

**Global**

- Views are mixed on how much of a drag there will be on UK GDP growth post-Brexit, and uncertainty should restrain business fixed investment near term.
- The European Central Bank is primed to add a bit more support in September, so European asset prices also look perkier.
- Continued concerns with Chinese economic restructuring and weakness in Latin America.

**Bottom line**

- The U.S. economy is expected to grow moderately, but a soft global economy will remain a restraint.

We will continue to monitor investment trends and the market environment, and share the most relevant information with you.

In the meantime, please feel free to call me if you have any questions. I look forward to speaking with you.

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