

Monthly Economic Update

**GRAY EQUITY
MANAGEMENT, LLC** 
The Power of 3TM: Client, CPA & Financial Advisor

MONTHLY QUOTE

"It is the dull man who is always sure, and the sure man who is always dull."

-H.L. Mencken

MONTHLY TIP

What is the easiest way to create a college fund? For the typical family, it might be simply arranging automatic contributions to a tax-advantaged college savings account, starting when the child is born.

MONTHLY RIDDLE

When Mae was 2 years old, her sister was half her age. Today Mae is 100 years old, so how old is her sister now?

Last month's riddle:

It is not alive. It asks you no questions. Yet now and then, it demands an answer from you. What is it?

Last month's answer:

Your phone.

QUICK LINKS

January 2017

THE MONTH IN BRIEF

While the Dow Jones Industrial Average did not top 20,000 in December, it did advance nicely, gaining 3.34%. The Federal Reserve took its interest rate target to 0.50-0.75%, adjusting the federal funds rate for just the second time in two years; around the world, other central banks held rates steady, and one even pledged additional easing. Oil prices jumped. Closely watched consumer confidence and purchasing manager indices rose, and unemployment declined. Home sales improved even as mortgage rates neared highs unseen since 2011. Wall Street and Main Street seemed optimistic about the economy's future.^{1,2}

DOMESTIC ECONOMIC HEALTH

The Fed adjusted its dot-plot for the next three years as it raised the benchmark interest rate by a quarter-point in December. Its latest forecast projects two to three rate hikes per year through 2019, with three occurring this year. Fed policymakers see the economy expanding 2.1% in 2017.²

Employers grew their payrolls by 178,000 net new hires in November, noted the Department of Labor's latest jobs report. Unemployment dropped 0.3% to 4.6%; the jobless rate was last that low in August 2007. (The broader U-6 rate, which also counts the underemployed, declined 0.2% to 9.3%, the lowest figure since April 2008.) The average hourly wage was \$25.89, up 2.5% in the past year.³

The Institute for Supply Management's manufacturing purchasing managers index gained 1.3 points in November, moving up to 53.2. ISM's service sector PMI also improved, coming in at 57.2, 2.4 points above its October level. (In fact, this was the best reading for the service sector PMI in 13 months.)^{4,5}

Speaking of goods and services, the month ended with the federal government's final assessment of third-quarter growth: 3.5%. Hard good orders, however, fell 4.6% in November, 6.6%

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with defense orders subtracted; industrial output was off 0.4% in the eleventh month of the year.^{6,7}

The Fed's core PCE price index was flat for November and showed a 1.6% yearly advance. Both the headline and core Consumer Price Index rose 0.2% for November; in contrast, the headline and core Producer Price Index each rose 0.4%.^{6,7}

The Conference Board's monthly index of consumer confidence jumped to 113.7 in December, rising 4.3 points. The year's final University of Michigan household sentiment index came in slightly higher at a reading of 98.2.^{4,6}

Household confidence aside, November's personal spending and retail sales numbers were run-of-the-mill. The Department of Commerce stated that consumer spending rose a modest 0.2% in November, while retail purchases were up but 0.1%, 0.2% with auto sales factored out. Personal incomes were flat.^{6,7}

GLOBAL ECONOMIC HEALTH

China's official purchasing managers index showed a fifth consecutive month of factory growth in December; though, the 51.4 mark was 0.3 points below the November reading. Greater infrastructure spending and increased home construction in the PRC helped Chinese manufacturing sustain its pace in the second half of the year; although, factory output moderated slightly in December. The Bank of Japan left its key interest rate in negative territory last month, a reassuring decision for investors in the Asia-Pacific region.^{8,9}

The European Central Bank announced an extension of its bond-purchase program through December 2017. The caveat was that the ECB would trim the monthly amount of those purchases, starting in March, from €80 billion to €60 billion. Eurozone inflation was just 0.6% in the year's last report, with the most recent data (Q3) putting economic growth at 0.3%. Italian prime minister Matteo Renzi resigned early in December after the effort of his Democratic Party to change Italy's constitution was rejected by voters. That happened just as it appeared the country's third-largest bank would need a bailout. As banking problems continued, observers wondered if the tenure of his replacement, Paolo Gentiloni, would be short.^{10,11}

WORLD MARKETS

Major European stock indices rallied their way toward 2017 in December. Out in front, Germany's DAX advanced 7.90%. Going clockwise around the continent from there, Russia's Micex gained 6.07%; France's CAC 40, 6.20%; and Spain's IBEX, 7.64%. Across the English Channel, the U.K.'s FTSE 100 gained 5.29%.¹²

The Hang Seng and Shanghai Composite suffered some large December losses. The former fell 3.46%; the latter, 4.51%. Argentina's Merval slipped 3.01% for the month; Brazil's Bovespa, 1.24%. December brought nice gains for some other indices in the Americas and the Asia-Pacific region, however. The Nikkei 225 rose 4.40%; the Australian All Ordinaries, 3.94%;

the South Korean KOSPI, 2.43%. Just north of us, the TSX Composite added 1.36%; to our south, the Bolsa advanced 0.72%. India's Sensex was essentially flat, off just 0.10% for the month. As for notable regional and multinational benchmarks, the FTSE Eurofirst 300 rose 5.74%; the MSCI World, 2.29%. The MSCI Emerging Markets fell just 0.06%.^{12,13}

COMMODITIES MARKETS

With OPEC nations set to reduce output, the price of oil was poised to rise - and rise it did. Crude finished the month at \$53.89 on the NYMEX, gaining 10.02% in December. How much did oil advance in 2016? 46.12%. Other marquee energy futures had large December gains: heating oil rose 10.79%; natural gas, 11.89%; and unleaded gasoline, 12.85%. The major crop futures mostly lost ground - cotton slipped 1.30%; sugar, 1.51%; soybeans, 2.81%; coffee, 6.85%; and cocoa, 11.22%. Wheat and corn were exceptions. The former commodity gained 6.84%; the latter, 4.16%.¹⁴

December was not a good month for metals. Gold closed the year at \$1,152.00 on the COMEX, losing 1.74%; silver futures declined 3.25% to end 2016 at \$15.96. Across 2016, gold gained 7.18%, and silver, 15.04%. Copper lost 4.67% in December; platinum, 0.77%.¹⁴

REAL ESTATE

On the final Friday of 2016, Bloomberg found the average interest rate on a 30-year fixed rate mortgage at 4.09%, approaching a five-year high. A day earlier (December 29), Freddie Mac's Primary Mortgage Market Survey measured an average of 4.32%, up from 4.08% on December 1. Freddie also charted the following December rises for other key home loan varieties: 5/1-year ARM, 3.15% to 3.30%; 15-year FRM, 3.34% to 3.55%.^{15,16}

The latest data indicated that home sales had picked up in November. Resales increased 0.7% to an annual pace of 5.61 million units, according to a report from the National Association of Realtors. New home buying jumped 5.2% in the eleventh month of 2016 by the measure of the Census Bureau. As for home prices, the October edition of the S&P/Case-Shiller home price index showed a 5.6% year-over-year gain, as opposed to 5.4% in September.^{4,6}

Looking to the near future in the housing market, the NAR reported a 2.5% drop in pending home sales in November following the 0.1% increase for October. Permits for new projects fell 4.7% in November as fall ebbed into winter; groundbreaking declined 18.7%.^{4,6}

LOOKING BACK...LOOKING FORWARD

On December 30, the most-watched U.S. indices closed out the year at the following levels: Dow Jones Industrial Average, 19,762.60; S&P 500, 2,238.83; NASDAQ Composite, 5,383.12; Russell 2000, 1,357.13; CBOE VIX, 14.04. Here are the monthly gains that took them to those levels: DJIA, 3.34%; S&P, 1.82%; NASDAQ, 1.12%; RUT, 2.63%; VIX, 5.33%. The S&P GSCI commodity index was the December front-runner on Wall

Street, rising 5.56%. Defying the naysayers, the stock market performed quite respectably last year.¹

%CHANGE	2016	Q4 2016	5-YR AVG	10-YR AVG
DJIA	+13.42	+7.94	+12.35	+5.86
NASDAQ	+7.50	+1.34	+21.33	+12.29
S&P 500	+9.54	+3.25	+15.60	+5.79
REAL YIELD	12/30 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.50%	0.77%	-0.07%	2.41%

Sources: barchart.com, bigcharts.com, treasury.gov - 12/30/16^{1,17,18,19} Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

Could the bull run slow to a trot this month? Or will the Dow rise above 20,000? Entering 2017, there are some factors that could certainly provide a tailwind for the bull market. If consumer confidence remains high, and employment and wage data continues showing improvement, this bodes well for consumer spending and, by extension, near-term corporate earnings. If infrastructure spending ramps up this year, the resulting job growth could also foster wage growth. So, while this current bull market is one of the longest, bullish sentiment has definitely increased, and January could be another month of gains for the major U.S. indices.

UPCOMING ECONOMIC RELEASES:

The list for the rest of January includes the December ISM service sector PMI and Challenger job cut report (1/5); the Department of Labor's December jobs report and data on November factory orders (1/6); the December PPI, December retail sales, and the initial January University of Michigan consumer sentiment index (1/13); a new Federal Reserve Beige Book, the December CPI, and December industrial output (1/18); December housing starts and building permits (1/19); December existing home sales (1/24); December new home sales (1/26); the first estimate of Q4 growth, January's final University of Michigan consumer sentiment index, and December hard goods orders (1/27); the December PCE price index, December consumer spending, and December pending home sales (1/30); and, lastly, the January consumer confidence index from the Conference Board and the November S&P/Case-Shiller house price index (1/31).

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Sincerely,

Daniel C. Romano, CPA, PFS
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All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (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 Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. NYSE Group, Inc. (NYSE:NYX) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®), and the Pacific Exchange). 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The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The Hang Seng Index is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Merval Index (MERCado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The All Ordinaries (XAO) is considered a total market barometer for the Australian stock market and contains the 500 largest ASX-listed companies by way of market capitalization. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The Mexican Stock Exchange commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The FTSE Eurofirst 300 measures the performance of Europe's largest 300 companies by market capitalization and covers 70% of Europe's market cap. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. The S&P GSCI is the first major investable commodity index; it is one of the most widely recognized benchmarks that is broad-based and production weighted to represent the global commodity market beta. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. 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