

Monthly Economic Update

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

MONTHLY QUOTE

"The whole life of man is but a point of time; let us enjoy it."

- Plutarch

MONTHLY TIP

If you have assets in a workplace retirement plan or a traditional IRA, you can do a Roth conversion regardless of how much you earn. (You will be in line to pay ordinary income tax on the amount you convert.)

MONTHLY RIDDLE

It can fit down a chimney when it is down. It has a hard time going down a chimney when it is up. You can hold it with one hand, and make it expand. What is it?

Last month's riddle:

Three sisters walk toward school with just one small umbrella, which they must all try to fit under. When they reach their school, none of them are the slightest bit wet. How is this possible?

Last month's answer:

May 2017

THE MONTH IN BRIEF

In April, investors kept one eye on impressive corporate earnings and another on geopolitical developments in Asia and Europe. Earnings ultimately drew the most attention - the Dow Jones Industrial Average rose more than 1% for the month, while the Nasdaq Composite added more than 2%. The latest readings on some key economic indicators were disappointing, but consumer confidence and purchasing manager indices looked good. Positive economic news filtered in from both China and the eurozone. Home sales were up; mortgage rates down. Commodity futures largely struggled. All in all, the month featured more economic positives than negatives.¹

DOMESTIC ECONOMIC HEALTH

An extremely bullish stock market climate and abundant consumer confidence often coincide. In April, the nation's most-watched consumer confidence indices remained high; albeit, not as high as they were in March. The Conference Board's index declined to 120.6, 4.3 points lower than the previous month; the University of Michigan's household sentiment index ended the month at 97.0, one point lower than its preliminary April mark.²

Job creation had waned in March. The Department of Labor's employment report showed only 98,000 net new hires in that month. Still, the jobless rate dipped 0.2% to 4.5%. The U-6 rate, measuring both unemployment and underemployment, declined 0.3% to 8.9%. Does all that seem incongruent? Two factors may help explain it. One, the number of unemployed Americans declined by 326,000 during March, for assorted reasons. Two, the DoL uses two different surveys to compile data for its monthly report. One tracks payrolls at businesses; the other, the employment status of individuals.³

Turning from the workplace to the point of purchase, March saw flat consumer spending and a 0.2% downturn in retail sales. (Consumer incomes rose 0.2%.) In related news, America's first-quarter GDP number was lackluster - the

It didn't rain on their way to school.

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economy grew just 0.7% in the opening three months of the year, according to the initial estimate of the Bureau of Economic Analysis.^{2,4}

Consumer inflation declined 0.3% in March, with core consumer prices down 0.1%. Even after that significant dip, the yearly gain in the headline Consumer Price Index stood at 2.4%. The Producer Price Index ticked down 0.1% in March, leaving annualized wholesale inflation at 2.3%.⁴

The Institute for Supply Management's service sector purchasing manager index was at a healthy 55.2 in the third month of the year, though it was 2.4 points below its February reading. ISM's manufacturing PMI, which had been at 57.2 in March, came in at a still-strong 54.8 for April. Hard goods orders were up 0.7% in March after a 2.3% gain in February.^{2,5}

GLOBAL ECONOMIC HEALTH

April brought news of economic improvement in China. During Q1, the nation's economy grew at a 6.9% pace - the best pace seen in six quarters. That surpassed the 6.5% target set by its government. Real estate investment had increased 9.1% and fixed-asset investment 9.2% from a year earlier, but the real boost came from a 21.0% year-over-year gain in local and central government spending. Disposable income grew at a yearly rate of 7.0%, a high unmatched since late 2015. Chinese factory growth did fall short of expectations in April, with the nation's official PMI hitting a 6-month trough of 51.2.^{6,7}

Markit's eurozone manufacturing PMI hit a 6-year peak in Q1, reaching 56.4; service sector PMIs for Germany, France, and Spain were all above 55 for the quarter. Markit estimated the Spanish economy growing by 0.8-0.9% in Q1, with projected expansion of 0.6% for Germany and France and 0.3-0.4% for Italy. Eurostat, the European Union's statistical office, estimated euro area inflation at 1.9% in April, 0.4% higher than it had been in March.^{8,9}

WORLD MARKETS

In April, Argentina's Merval (+4.98%) and France's CAC 40 (+4.38%) made the biggest upward moves among foreign benchmarks. Spain's IBEX 35 went +3.15%; Germany's DAX, +2.38%. Three other major indices gained more than 2% in April: India's Nifty 50 went +2.23%; the FTSE Eurofirst 300, +2.11%; and the MSCI Emerging Markets, +2.04%.^{10,11}

Other April performances: South Korea's Kospi, +1.95%; India's Sensex, +1.73%; Australia's All Ordinaries, +1.49%; the MSCI World, +1.33%; Brazil's Bovespa, +1.18%; Hong Kong's Hang Seng, +1.11%; Japan's Nikkei 225, -0.03%; Canada's TSX Composite, -0.08%; Mexico's Bolsa, -0.16%; the U.K.'s FTSE 100, -1.90%; China's Shanghai Composite, -3.02%.^{10,11}

COMMODITIES MARKETS

With stocks once again at or near record levels, commodities mostly cooled off. Gold was certainly an exception: it rose 1.59% last month to settle at \$1,269.50 per ounce on the COMEX on April 28. Silver, on the other hand, sank 5.30% to

finish April at \$17.16. Copper gave back 2.23% for April; platinum, only 0.22%. The U.S. Dollar Index retreated 1.51%.^{12,13}

As for oil, it ended April under \$50 - at \$49.19 on the NYMEX, to be precise. It lost 3.26% on the month. Unleaded gas took the big tumble among major energy futures, dropping 9.33%. Heating oil's loss was smaller at 4.36%. Natural gas futures advanced 2.41% for April. Two crops fell particularly hard - cocoa dove 11.94%; coffee, 8.65%. Sugar lost 4.30%. Cotton futures were up 2.34% in April, but corn dipped 2.12%, and wheat, 2.34%. Soybeans were down just 0.05% on the month.¹²

REAL ESTATE

With the Federal Reserve pledging to tighten as last year ended, who would have guessed mortgage rates would be lower in April than at the start of the year? They were. Freddie Mac's April 27 Primary Mortgage Market Survey showed average interest on the 30-year FRM at 4.03%; in the January 5 survey, the average interest rate was 4.20%. A year-to-date decline was also evident for the 15-year FRM (3.44% to 3.27%). Average interest on the 5/1-year ARM was 3.12% in April, 3.33% in December. Between March 30 and April 27, the average interest rate on the 30-year FRM lessened 0.11%; for the 15-year FRM and the 5/1-year ARM, the respective descents were 0.12% and 0.06%.¹⁴

Existing home sales were up 4.4% in March, according to the National Association of Realtors, a nice change from the (revised) 3.9% February retreat. New home buying, too, improved - the March gain was 5.8%, leaving the annualized advance at 15.6%.^{4,15}

Looking at other housing indicators, the January edition of the 20-city Case-Shiller home price index arrived, showing a 5.8% year-over-year increase. That bettered the 5.6% yearly rise seen in the December edition. The NAR announced a 0.8% retreat for pending home sales during March, contrasting with a 5.5% surge in February. Housing starts fell by 6.8% in the third month of 2017, but building permits rose 3.6%.^{2,4}

LOOKING BACK...LOOKING FORWARD

The Nasdaq Composite surpassed 6,000 for the first time in April, gaining 2.30% for the month. At the closing bell on April 28, the index's 52-week advance stood at 26.64%. The S&P 500 added 0.91% in April; the Dow Jones Industrial Average, 1.34%. The small-cap Russell 2000 improved 1.05%. April's stock rally thrust the CBOE VIX south by 12.53%; it ended the month at 10.82. The Nasdaq 100 was the pacesetter among consequential U.S. equity indices in April, rising 2.71%. At the end of April, the foremost equity indices watched by Wall Street settled as follows: DJIA, 20,940.51; NASDAQ, 6,047.61; S&P, 2,384.20; RUT, 1,400.43.^{1,16}

%CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+5.96	+17.44	+11.66	+5.96
NASDAQ	+12.34	+25.85	+19.41	+13.65

S&P 500	+6.49	+14.86	+13.98	+5.96
REAL YIELD	4/28 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.37%	0.12%	-0.30%	2.25%

Sources: wsj.com, bigcharts.com, treasury.gov - 4/28/17^{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.

On April 28, FactSet estimated 12.5% blended earnings growth for companies in the S&P 500. If that projected annualized growth rate holds, Q1 will turn out to be the best quarter for earnings growth in nearly six years. Earnings gains will certainly vary over succeeding quarters, but for the near term, this story of solid growth may continue to be the narrative. In early May, the most attention may be paid to the Department of Labor's latest jobs report (Did the March data amount to an aberration? Did payroll growth pick up in April?) and the Federal Reserve's newest policy statement (Will the central bank send hawkish or dovish signals?). Most investors are looking at the markets through a bullish lens right now, and barring some abrupt, troubling event, the bulls look ready to run for another month.²⁰

UPCOMING ECONOMIC RELEASES:

Here is what investors will watch for in May: the FOMC's latest policy statement and the April ISM service sector PMI (5/3), the April Challenger job-cut report and March factory orders (5/4), the April jobs report from the Department of Labor (5/5), the April PPI (5/11), the April CPI, April retail sales, and the initial May consumer sentiment index from the University of Michigan (5/12), April housing starts, building permits, and industrial production (5/16), April new home sales (5/23), April existing home sales (5/24), April durable goods orders, the federal government's second estimate of Q1 growth, and the University of Michigan's final May consumer sentiment index (5/26), the Conference Board's latest consumer confidence index, April personal spending, and the April PCE price index (5/30), and then April pending home sales, plus the Federal Reserve's latest Beige Book (5/31).

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We hope you enjoyed this Monthly Economic Update.

Sincerely,

Daniel C. Romano, CPA, PFS
Gray Equity Management, LLC

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The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. 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 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 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 MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. 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 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 FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai 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 MICEX 10 Index (Russian: Индекс ММВБ10) is an unweighted price index that tracks the ten most liquid Russian stocks listed on MICEX-RTS in Moscow. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. PHLX Semiconductor Sector (SOX) is a Philadelphia Stock Exchange capitalization-weighted index composed of companies primarily involved in the design, distribution, manufacture, and sale of semiconductors. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. 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