



THE WEEK IN REVIEW

The Federal Reserve's June meeting was held this week. Last year many Fed officials indicated June was a possibility for the first interest rate increase. Slow economic activity in the winter and mixed data this year have shifted expectations for the rate hike to September. Fed Chair Janet Yellen reiterated that before rates are increased, the Fed needs to see more improvement in the labor market, and a move in inflation toward its 2.0% target. Yellen noted the labor market has shown further improvement, but at a slower pace than the second half of last year. The Fed revised a few of its projections which suggest officials have become less optimistic. In March, the Fed projected economic growth to be between 2.3% and 2.7% this year. In the most recent projection, economic growth was lowered to between 1.8% and 2.0%. The unemployment forecast was increased to 5.2%-5.3%, versus the previous forecast of 5.0%-5.2%.

On Tuesday, the Commerce Department reported housing starts declined in May after reaching a seven-year high in April. On a positive note, permits to build new homes were up 12.0% to an annual rate of 1.275 million, the highest since August 2007. Apartment construction was especially strong.

Industrial production fell a seasonally adjusted 0.2% in May, below expectations for a 0.2% increase, as the strong dollar and low oil prices weighed on manufacturers and oil producers. Revisions to the past few months show that output from factories, mines, and utilities in the U.S has not increased since November.

The Consumer Price Index gained 0.4% in May from a month earlier, marking the largest monthly increase in inflation since February 2013. The large growth was primarily driven by a 10.4% jump in gasoline prices and 5.7% increase in airline fares. Despite gasoline's large increase, it is still a big drag on inflation, with gasoline prices 25% lower than a year earlier. Other inflation components increased modestly, including food, rent, and health care increasing 0.0%, 0.3%, and 0.2%, respectively. Inflation has improved for four straight months; however it is flat from a year earlier. The absence of upward pressure on prices in most of May's report is not an encouraging sign for the Fed.

Markets were volatile throughout the week ahead of an emergency meeting of European Union officials this coming Monday. Euro zone leaders are hoping to finalize a deal over the looming Greek debt default crisis. All major U.S. markets were ahead for the week. The Russell 2000 Index closed at a record level on Friday. Chinese stocks fell over 6.0% on Friday and 13.0% for the week, amidst continued volatility and uncertainty about the government's economic stimulus efforts.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	18,014.28	0.64%	1.07%	6.46%
NASDAQ	5,117.00	1.30%	8.04%	17.38%
S&P 500 LargeCap	2,109.76	0.75%	2.47%	7.67%
S&P 400 MidCap	1,540.82	0.65%	6.08%	8.37%
S&P 600 SmallCap	736.31	1.43%	5.93%	8.72%
MSCI EAFE	1,811.39	-0.49%	6.00%	-5.59%
MSCI Emerging Markets	977.61	-0.19%	2.23%	-6.89%
Barclays Aggregate US		0.14%	-0.18%	2.38%
Bloomberg Non-US Govt Bond		0.25%	-0.72%	3.14%
Bloomberg US Treasury Index		0.29%	-0.23%	3.01%
Bloomberg High Yield Index		-0.16%	3.66%	-0.15%
FTSE/NAREIT All REIT Index		1.54%	-2.85%	4.31%
Bloomberg Commodity Index		-0.74%	-4.31%	-26.74%
KEY BOND RATES		WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill		0.02%	0.02%	0.02%
2-Year Treasury		0.74%	0.63%	0.48%
5-Year Treasury		1.75%	1.60%	1.71%
10-Year Treasury		2.39%	2.27%	2.64%
30-Year Treasury		3.10%	3.05%	3.47%
Municipal Bond Yields (10 Yr)		2.38%	2.34%	2.35%
Price return as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.				

UPCOMING WEEK

Next Wednesday the final reading of first quarter GDP will be released. Economists are forecasting an upward revision to -0.2% from -0.7%. The PCE Price Index will be released Thursday, with expectations of a 0.3% monthly increase. Existing home sales are forecasted to rebound 4.8% after the 3.3% decline in April. Growth in new home sales is estimated to slow to 1.6% following April's strong gain of 6.8%. The weakness in durable goods is expected to continue, with economists estimating a loss of 0.5%.

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