



THE WEEK IN REVIEW

This was another week of mixed signals in economic data and earnings releases. On Monday, the Commerce Department reported that consumer spending rose 0.2% in June, a bit shy of analyst expectations due to fewer automobile purchases. The core Personal Consumption Expenditure (PCE) price index, a favorite inflation gauge for the Federal Reserve, rose just 0.1% in June, and is up only 1.3% over the last 12 months. This is below the Fed's 2.0% inflation target.

On Friday morning, the Bureau of Labor Statistics revealed that nonfarm payrolls increased by 215,000 in July and the unemployment rate stayed at 5.3%. Average hourly earnings rose by five cents to \$24.99. This measure has risen by 2.1% over the past year, in line with inflation. The labor force participation rate, at 62.6%, was unchanged from the previous month. All of these figures were in line with market expectations and are likely conducive to the Federal Reserve raising rates later this year.

Equity markets trended lower this week in reaction to market data and earnings releases, as the S&P 500 closed down 1.3% for the week. About 90% of the S&P 500 companies scheduled to release Q2 earnings in July and August have now done so. Of those, according to Factset, approximately 75% have reported earnings above the mean estimate, and about 50% above the mean sales estimate. Healthcare has been the bright spot, reporting the best year-on-year increase of all sectors in both revenue and earnings growth, with 94% of reporting companies beating earnings estimates. The opposite is true of yearly changes in revenue and earnings of the energy sector.

For those companies reporting second quarter earnings so far, earnings have declined on a year-on-year basis by 1.0%, with sales falling 3.3%. This is the first quarter of annual earnings decline in almost three years. Analysts are not projecting a return to positive growth in year-on-year earnings for the S&P 500 until the fourth quarter, and for revenue, not until the first quarter of 2016.

Interest rates ended the week with little change as all eyes remain on the Federal Reserve for clues to its timing of raising the Fed Funds target. Despite volatility in the 10-year Treasury yield during the week, that benchmark closed out the week at 2.2%, near where it began the week and 2015. According to Bloomberg, the futures market implies an approximate 50% chance that the Fed will raise rates at its September meeting.

| INDEX | LEVEL | WEEK | YTD | 12 MO |
|-------------------------------|-----------|-------------|-----------------|-----------------|
| DJ Industrial Average | 17,373.38 | -1.79% | -2.52% | 6.14% |
| NASDAQ | 5,043.54 | -1.65% | 6.49% | 16.35% |
| S&P 500 LargeCap | 2,077.57 | -1.25% | 0.91% | 8.80% |
| S&P 400 MidCap | 1,488.16 | -0.98% | 2.46% | 9.00% |
| S&P 600 SmallCap | 701.21 | -1.60% | 1.46% | 9.16% |
| MSCI EAFE | 1,875.28 | -0.24% | 5.66% | -0.41% |
| MSCI Emerging Markets | 884.93 | -1.86% | -7.46% | -15.82% |
| Barclays Aggregate US | | -0.17% | 0.42% | 2.12% |
| Bloomberg Non-US Govt Bond | | -0.33% | -0.66% | 2.51% |
| Bloomberg US Treasury Index | | -0.12% | 0.81% | 3.30% |
| Bloomberg High Yield Index | | -0.42% | 2.15% | -0.16% |
| FTSE/NAREIT All REIT Index | | -0.25% | -2.99% | 4.50% |
| Bloomberg Commodity Index | | -1.42% | -13.27% | -29.16% |
| KEY BOND RATES | | WEEK | 1 MO AGO | 1 YR AGO |
| 3-Month T-Bill | | 0.06% | 0.02% | 0.03% |
| 2-Year Treasury | | 0.73% | 0.58% | 0.44% |
| 5-Year Treasury | | 1.59% | 1.55% | 1.60% |
| 10-Year Treasury | | 2.18% | 2.27% | 2.43% |
| 30-Year Treasury | | 2.83% | 3.04% | 3.23% |
| Municipal Bond Yields (10 Yr) | | 2.31% | 2.31% | 2.27% |

Price return as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

UPCOMING WEEK

With most of the second quarter earnings reports behind us, we expect that next week will be relatively calm in financial markets as we head further into the dog days of summer. Tuesday sees the release of the NFIB Small Business Index for July. On Thursday, the Census Bureau releases July Retail Sales, expected to show 0.7% growth. Friday brings the Producer Price Index (expected to be a drop of 0.1%), and the University of Michigan Index of Consumer Sentiment.

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