

Costello Wealth Management

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Market Week: June 20, 2016

The Markets (as of market close June 17, 2016)

The Fed maintained interest rates at their current level following last week's meeting, primarily influenced by May's mundane employment report. That, coupled with a fall in global stocks, pushed U.S. stocks down as money seemed to move to gold and long-term bonds. Each of the indexes listed here lost value compared to the prior week. The Dow dropped 190 points and 1.06%. Since June 8, the S&P 500 is down 3.7% after falling 1.19% last week. The tech-heavy Nasdaq lost almost 2.0%, while the Russell 2000 dropped over 1.50%. Gold soared in price, crude oil remains below \$50 a barrel after exceeding that mark a few weeks ago, and the yield on long-term Treasuries is down 65 basis points since the beginning of the year.

Crude oil (WTI) closed at \$48.26 a barrel last week, down \$0.68 from the previous week. The price of gold (COMEX) rose to \$1,301.60 by late Friday afternoon, up from the prior week's price of \$1,276.30. The national average retail regular gasoline price increased for the fifth week in a row to \$2.399 per gallon on June 13, 2016, \$0.018 above the prior week's price but \$0.436 below a year ago.

| Market/Index | 2015 Close | Prior Week | As of 6/17 | Weekly Change | YTD Change |
|-------------------------------|-------------|-------------|-------------|---------------|------------|
| DJIA | 17425.03 | 17865.34 | 17675.16 | -1.06% | 1.44% |
| Nasdaq | 5007.41 | 4894.55 | 4800.34 | -1.92% | -4.14% |
| S&P 500 | 2043.94 | 2096.07 | 2071.22 | -1.19% | 1.33% |
| Russell 2000 | 1135.89 | 1163.93 | 1144.70 | -1.65% | 0.78% |
| Global Dow | 2336.45 | 2333.86 | 2300.22 | -1.44% | -1.55% |
| Fed. Funds rate target | 0.25%-0.50% | 0.25%-0.50% | 0.25%-0.50% | 0 bps | 0 bps |
| 10-year Treasuries | 2.26% | 1.64% | 1.61% | -3 bps | -65 bps |

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Last Week's Headlines

- The Federal Open Market Committee held interest rates at their current range of 0.25%-0.50% following its meeting last week. The Committee noted that, while growth in economic activity has picked up and household spending has strengthened, the pace of improvement in the labor market slowed, job gains diminished, and inflation continues to run below the Committee's 2.0% longer-run objective. Essentially reiterating a common theme of late, Chair Janet Yellen stated, "We continue to expect that the evolution of the economy will warrant only gradual increases in the federal funds rate. We expect the rate to remain, for some time, below levels that are anticipated to prevail in the longer run because headwinds weighing on the economy mean that the interest rate needed to keep the economy operating near its potential is low by historical standards." It would appear that June's employment report will have a significant bearing on whether the Committee increases interest rates in July.



Key Dates/Data Releases

6/22: Existing home sales

6/23: New home sales

6/24: Durable goods orders, consumer sentiment

- According to the latest report from the Census Bureau, consumers are spending more as retail and food services sales increased in May over April. Total retail sales and services came in at \$455.6 billion in May, 0.5% over April and 2.5% ahead of May 2015. Retail trade sales were up 0.4% from April, and are up 2.0% from last year. Nonstore (online) retail sales were up 12.2% from May 2015, while health and personal care stores increased 8.3% from last year.
- Increasing energy costs are pushing the prices manufacturers receive for goods and services higher. The Producer Price Index rose 0.4% in May following a 0.2% gain in April. In May, over 60% of the index gain can be traced to prices for goods, which climbed 0.7%. Prices for services moved up 0.2%. Prices less foods, energy, and trade services edged down 0.1% in May after rising 0.3% in April. For the 12 months ended in May, the price index less foods, energy, and trade services increased 0.8%.
- Despite gains in consumer spending, the prices consumers are paying haven't moved much. The Consumer Price Index for May showed prices increased a scant 0.2% over April (0.4% increase), while the core prices, excluding food and energy, also inched up 0.2%. Food prices fell 0.2% while energy prices increased 1.2%, reflective of a rise of 2.3% in gasoline prices. Over the last 12 months, the all items index rose 1.0%, while the index for all items less food and energy rose 2.2%.
- The Federal Reserve's Index of Industrial Production, which includes factories, mines, and utilities, fell 0.4% in May after increasing 0.6% in April. Manufacturing output moved down 0.4%, led by a large step-down in the production of motor vehicles and parts (-4.2%). Factory output, aside from motor vehicles and parts, edged down 0.1%. The index for utilities fell 1.0% as a drop in the output of electric utilities was partly offset by a gain in natural gas utilities. After eight straight monthly declines, the production at mines moved up 0.2%.
- Driven by rising oil prices and a weakening dollar, both import and export prices increased in May over April. Prices for U.S. imports increased 1.4% following advances of 0.7% in April and 0.4% in March. U.S. export prices advanced 1.1% in May after rising 0.5% the previous month.
- Home-builder sentiment improved in June as the National Association of Home Builders Housing Market Index rose to 60 after four straight months at 58. Builders expressed renewed confidence in the market for newly constructed single-family homes in June. According to the NAHB report, builders are seeing more traffic and committed buyers. Breaking down index components, the future sales index gained 5 points to 70, future sales increased 3 points, and present sales jumped 1 point to 64.
- Low mortgage rates and steady job growth have spurred activity in the housing market. However, a lack of inventory and rising prices have kept some would-be homebuyers away. Evidence of this can be seen in the housing starts (the beginning of construction) report for May, which saw privately owned housing starts fall 0.3% to an annual rate of 1,164,000. Single-family housing starts were at an annual rate of 764,000, which is 0.3% above the revised April figure of 762,000. Building permits for private homes increased 0.7% in May, but are off 10.1% compared to May 2015. Builders are apparently trying to keep up with demand as privately owned housing completions in May were 5.1% above the revised April estimate of 940,000.
- In the week ended June 11, the advance figure for seasonally adjusted initial unemployment insurance claims was 277,000, an increase of 13,000 from the previous week's unrevised level. The advance seasonally adjusted insured unemployment rate increased 0.1 percentage point to 1.6% for the week ended June 4. The advance number for seasonally adjusted insured unemployment during the week ended June 4 was 2,157,000, an increase of 45,000 from the previous week's revised level.

Eye on the Week Ahead

The housing market is back in focus this week as May's figures on existing home sales and new home sales are released. In April, new home sales hit their highest rate since January 2008, while sales of existing homes increased by almost 2% from March. May's figures are expected to continue to show progress, yet they may not approach the robust growth made in April. Internationally, June 23 marks the date Britons vote on the referendum to determine whether their country remains in the European Union or "Brexit."

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strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The 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 NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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