

Costello Wealth Management

Diane Rodgers Costello
President
222 Water Street
Suite 308
Binghamton, NY 13901
607-348-1001
Fax: (607) 723 1642
diane.costello@lpl.com
www.dianecostello.com



Market Week: July 5, 2016

The Markets (as of market close July 1, 2016)

The beginning of the week saw equities still reeling from the Brexit vote. However, the markets closed with a flourish, recouping all of the losses from the prior week. Each of the indexes listed here enjoyed positive returns by week's end with each index gaining over 3.0% week-over-week, except the Russell 2000, which finished the week up about 2.6%. Year-to-date, only the Nasdaq and Global Dow remain below their 2015 closing values, but they're gaining ground. While equities gained some traction, long-term bond yields touched lows that hadn't been seen in quite some time.

Crude oil (WTI) closed at \$49.28 a barrel last week, up \$1.71 from the previous week. The price of gold (COMEX) rose to \$1,344.90 by late Friday afternoon, up from the prior week's price of \$1,319.10. The national average retail regular gasoline price decreased to \$2.329 per gallon on June 27, \$0.024 under the prior week's price and \$0.472 below a year ago.

Market/Index	2015 Close	Prior Week	As of 7/1	Weekly Change	YTD Change
DJIA	17425.03	17400.75	17949.37	3.15%	3.01%
Nasdaq	5007.41	4707.98	4862.57	3.28%	-2.89%
S&P 500	2043.94	2037.41	2102.95	3.22%	2.89%
Russell 2000	1135.89	1127.54	1156.77	2.59%	1.84%
Global Dow	2336.45	2250.69	2323.19	3.22%	-0.57%
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%	1.55%	1.44%	-11 bps	-82 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 third estimate of the first quarter 2016 gross domestic product--the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production, adjusted for price changes--increased at an annual rate of 1.1%. The second estimate for the first quarter GDP showed an increase of only 0.8%. The third estimate is based on more complete data. The primary difference between the second and third estimates for the first quarter GDP is that exports increased more than previously estimated. In the fourth quarter of 2015, the GDP increased 1.4%. Compared to the fourth quarter, total business investment declined as did consumer spending in the first quarter 2016. The economy traditionally starts off slower during the first three months of the year, often picking up speed over the spring and summer months, leading to guarded optimism for the second quarter GDP.
- Personal income increased \$37.1 billion, or 0.2%, and disposable personal income (net after taxes) increased \$33.9 billion, or 0.2% in May, according to the Bureau of Economic Analysis. Personal



Key Dates/Data Releases

7/5: Factory orders, ISM Non-manufacturing Index

7/6: International trade

7/8: Employment situation

consumption expenditures, the Federal Reserve's preferred inflation measure, increased \$53.5 billion, or 0.4%. Compared to April, both income and spending (PCE) slowed in May. In April, personal income increased \$75.4 billion, or 0.5%, DPI increased \$68.6 billion, or 0.5%, and PCE increased \$141.2 billion, or 1.1%, based on revised estimates.

- The trade gap between imports and exports grew in May, according to the latest report from the Census Bureau. Exports for May were at \$119.0 billion, while imports came in at \$179.6 billion, resulting in a trade deficit of roughly \$60.6 billion. Exports fell 0.2% from April, and imports increased a sharp 1.6%. The trade gap in April was \$57.5 billion.
- Home prices continue to rise according to the latest report from the S&P/Case-Shiller Home Price Index, which reported a 5.0% annual gain in April, down from 5.1% the previous month. Before seasonal adjustment, the National Index posted a month-over-month gain of 1.0% in April.
- Following three straight months of gains, pending home sales took a step back in May, according to the National Association of Realtors®. The Pending Home Sales Index dropped 3.7% to 110.8 in May from a downwardly revised 115.0 in April. Low mortgage rates and scant inventory are pushing home prices higher, affecting the number of home sales.
- US manufacturers expressed guarded optimism in May and June as manufacturing expanded. The Institute for Supply Management® (ISM®) Purchasing Managers' Index® registered 51.3 for May, an increase of 0.5 percentage point from April's reading of 50.8. According to the report, new orders and production were seen as growing, while employment and inventories were contracting. The seasonally adjusted final Markit U.S. Manufacturing Purchasing Managers' Index™ (PMI™) registered 51.3 in June, up from 50.7 in May, and the highest reading for three months. Higher levels of production, new orders, and employment all helped to boost the index.
- The Conference Board Consumer Confidence Index® increased to 98.0 in June, up from 92.4 in May. The Present Situation Index increased from 113.2 to 118.3, while the Expectations Index rose from 78.5 to 84.5 in June. According to the Conference Board's Lynn Franco, "Consumers were less negative about current business and labor market conditions, but only moderately more positive, suggesting no deterioration in economic conditions, but no strengthening either."
- In the week ended June 25, the advance figure for seasonally adjusted initial unemployment insurance claims was 268,000, an increase of 10,000 from the previous week's unrevised level. The advance seasonally adjusted insured unemployment rate dropped to 1.5%. The advance number for seasonally adjusted insured unemployment during the week ended June 18 was 2,120,000, a decrease of 20,000 from the previous week's revised level.

Eye on the Week Ahead

Equities markets, at least domestically, seem to have halted the downfall from the UK's referendum vote to withdraw from the European Union. How this major world event affects other economic indicators remains to be seen. This week, important reports on international trade and the employment situation are released.

Data sources: News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. Market data: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing 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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