August 2016

Market Index	August Change	Year-to-Date
Standard & Poor's 500	0.1%	7.8%
Dow Jones Industrial Average	0.3%	7.7%
NASDAQ	1.2%	5.1%
Russell 2000 (small company)	1.8%	10.2%
MSCI EAFE (international)	0.1%	0.9%
Barclays Aggregate Bond Index	-0.1%	5.9%

Monthly Update

Quiet August

It was a typical August for stocks, as the market seemed to be taking a summer vacation. The S&P 500 Index finished slightly higher, with very thin trading volume and little volatility. In fact, in the 17 trading days ending on Thursday the 25th, the index moved less than 0.75% between its daily high and low, the most consecutive days since 1970. Trading volume, or the amount of shares being bought and sold, was the lowest in nearly two years. Bonds also closed out the month little changed. Oil prices have rebounded smartly from earlier in the year, gaining more than 11% in August and 70% from the lows in February.

Stocks Still Hovering around Records

Amid the limited volatility, the S&P 500 Index did reach new record highs during the month. Interestingly, in August the consumer discretionary sector was the only individual sector to also record a new high. The fact that other sectors did not is a reflection of some recent rotation in the market. Earlier in the year, defensive "bond-like" stocks had been reaching new highs along with the overall index, particularly utilities and telecom stocks. In August, however, the market favored more cyclical sectors that typically perform well when the economy does. Information technology, energy, and financials were the leading sectors. The solid performance of consumer stocks of late is a reflection of the economic recovery, which has been fueled by strong consumer spending, while corporate investing has been lackluster.

Federal Reserve to Meet Again in September

August was quiet in part because the market seems to be anticipating a more eventful September. The election in the U.S. draws ever closer, but from an economic standpoint the most notable event is the Federal Reserve (Fed) meeting scheduled for the 20th and 21st. The European Central Bank and the Bank of Japan will also be meeting to decide the course of policy. A weak jobs report on September 2nd reduced expectations that the Fed would raise rates in September, but hawkish comments from Janet Yellen and others during August seem to indicate that a rate hike is still likely in 2016. As a result, bond yields rose and the dollar has strengthened of late. It remains very clear that the Fed is committed to a cautious, gradual approach. Recent comments from board members have indicated the Fed's willingness to allow inflation to run a little higher than normal rather than short-circuit an economic recovery by raising rates too aggressively.

It has been said that economic recoveries don't die of natural causes, but are cut short either by central bank action or

Monthly Update (continued)

some sort of economic or market shock, such as the bursting of the housing bubble and subsequent credit crisis in 2008. Fortunately, the banking sector is much healthier in the U.S. today than it was in 2008. And many of the typical indicators of recession are not flashing warning signs. In addition, commodity prices are in many cases at low levels, which reduces the probability of a recession caused by a crash in their prices.

U.S. Recovery Continues, Albeit Slowly

The current economic recovery, now in its eighth year, has been marked by slower GDP growth than past recoveries. On its face, this is negative as it seems preferable to have higher rather than lower GDP growth. However, one potential bright side to a slower-growing economy is that it could actually extend the length of the recovery. When the economy grows more slowly, excesses do not accumulate as quickly, and the economy has time to find a healthy equilibrium.

Brexit Fallout Muted, but Europe Still Weak

For all the panic that Brexit induced back in June, economic data in the U.K. has been surprisingly resilient. Recent data on manufacturing output and consumer confidence have been much better than would have been expected given the initial fears in the wake of the Brexit vote. However, that hasn't translated to increased confidence in the European economy. European stocks have seen steady outflows this year, with outflows exceeding inflows every week for six months. European economies continue to battle weak corporate earnings, struggling banks, and a shaky political backdrop. Italy in particular has been battling a weak economy and banking system, giving rise to the prospect of "Quitaly." A referendum scheduled for the fall could lead to constitutional changes that would give more power to political parties in favor of leaving the EU. Both Italy and Britain have highlighted the contentious debate going on around the world regarding the merits of globalization and economic cooperation. This is certainly true in the U.S. as well.