

The Market Week in Review

For Week Ending September 3, 2016

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THE MARKETS

It was relatively quiet on Wall Street this past week as investors waited to hear what Federal Reserve Board Chairwoman Janet Yellen had to say about the U.S. economy and the future Fed monetary policy at a speech that occurred at the end of the week. In her remarks Yellen noted that “the case for an increase in the federal funds rate has strengthened in recent months”, but that any interest rate decision “always depends on the degree to which incoming data continues to confirm the Fed policy committee’s outlook”. Following Yellen’s comments the probability of a U.S. rate hike in September (as measured by futures prices) rose to 28 percent from 24 percent at the start of last week, while the chances of a rate hike by the end of the year increased to 54 percent. However the pace of future rate increases may be slower than previously expected due to the uncertainty of a slowdown in inflation expectations.

Index	Started Week	Ended Week	Change	% Change	YTD %
DJIA	18,395.40	18,491.96	96.56	0.52%	6.12%
Nasdaq	5,218.92	5,249.90	30.98	0.59%	4.84%
S&P 500	2,169.04	2,179.98	10.94	0.50%	6.66%
Russell 2000	1,238.03	1,251.83	13.80	1.11%	10.21%

DAILY DEVELOPMENTS

MONDAY

The Commerce Department announced that consumer spending rose 0.3% in July, sending the biggest part of the U.S. economy to a solid third-quarter start. It was the 4th monthly increase in consumer spending. Purchases of durable goods, which include automobiles, increased 1.9 percent in July after adjusting for inflation, the biggest gain in three months. Household outlays on services rose 0.2 percent and disposable income grew by 0.4 percent, after adjusting for inflation.

TUESDAY

The S&P Case-Shiller Home Price Index, which collects housing prices for 20 cities, slipped a tenth in June to a year-over-year appreciation rate of 5.1 percent. The greatest weakness was in the Midwest and Northeast where prices in both Chicago and New York City fell. Strength was seen in the West with Seattle and Portland rising 11 percent and 12.6 percent on the year, respectively.

The consumer confidence index rose to 101.1 in August from a revised 96.7 in July, the Conference Board said Tuesday. That's the highest level since September 2015 and it surpassed Wall Street expectations. Economists polled by MarketWatch had predicted a reading of 97. The present situation index, a measure of current conditions, climbed to 123 from 118.8 and hit the highest level since late 2007, while the future expectations index edged up to 86.4 from 82.

WEDNESDAY

ADP's private payrolls report indicated that 177,000 non-government jobs were added in the U.S. in August. This number marginally beat the consensus estimate by 2,000. The July number was also revised 15,000 higher to 194,000.

Pending home sales increased 1.3 percent in July, although the gain is coming off a June number which was revised sharply lower to a decrease of 0.8 percent. Year-over-year pending sales are up 1.4 percent, which doesn't point to much acceleration for the sector and is the last housing data the Fed will have before their September policy meeting.

THURSDAY

Initial jobless claims for the week of August 27th rose 2,000 to 263,000, matching the just-completed four week average. Despite the uptick, claims remain 22,000 less than the level at the end of 2015. Continuing claims for the week of August 20th edged up 14,000 to 2.16 million, which for this measure too, is the four week average. There were no special factors in the report which is a positive for August's jobs report.

The Institute of Supply Managers' Manufacturing Index registered the sharpest slowdown in more than two years in August. The index registered just 49.4 last month, the first reading below 50 (which is indicative of contraction) since February. Expectations had been for a reading of 52.2. Leading the weakness were new orders which fell eight points to 49.1, and backlog orders which fell 2.5 points for a reading of 45.5.

Construction spending was flat in July after a revised 0.9 percent rise in June. The consensus had been for a 0.6 percent gain. Spending on new homes is up 1.7 percent over the past year, but spending for office units was particularly strong for a second month and is up 30 percent year-over-year. These numbers may be misleading, however, as the Census Bureau recently announced that the previous 10 years of data were calculated incorrectly and were thereafter revised lower.

FRIDAY

The U.S. economy added 151,000 jobs last month which represents a major decline from the 275,000 new jobs the U.S. economy added in July, the Labor Department said Friday. The unemployment rate remained unchanged at 4.9 percent. Employment in restaurants and bars, social services, financial services, and health care showed the greatest payroll gains, while the mining industry continued to shed jobs.

Also on Friday the Commerce Department reported that new orders for manufactured goods rebounded 1.9 percent after a downwardly revised 1.8 percent decrease in June. It was the biggest rise since October 2015 and followed two straight months of declines.

TIDBITS

Apple Inc., the largest company in the world by market cap, has been ordered by the European Union to pay Ireland \$14.6 billion in back taxes. Officials in Ireland, however, have stated that Apple has paid its tax liabilities to the Irish government in full. Apple and Ireland will be appealing the EU's ruling.

QUOTE OF THE WEEK

“Give me a one-handed economist! All my economists say, ‘On the one hand . . . On the other.’”

- President Harry S. Truman

I hope you have found the information in this week's market summary informative. If you would like to comment on any of the information found in this week's Market Commentary please e-mail me at awillms@estatecounselors.com. If you would like to discuss how current market conditions could impact your investments, please feel free to call me at the number listed below.

Best regards,

Andy

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