Market Update

June 10, 2016

Presidential Race, Brexit, Unemployment, Federal Reserve Policy

In the last month, the top news stories have all surrounded the Presidential race. This is certainly going to have an effect on markets, but there are a few other major developments that have been front and center for the investment markets as well. Many investors are watching what is going on with Britain's possibility of leaving the European Union dubbed Brexit. Also, the most recent poorer than expected unemployment numbers have had an effect due to the anticipation of how the Federal Reserve will shape it's policy decisions.

As you will note, since my last Market Update on May 4, the market has continued its climb higher. We see that on June 8th we made a new short term high as indicated on the chart below by the green arrow. We are yet to break through our all-time high on the S&P 500 of 2134.72 set back on May 20' 2015. If we do, this would be a signal of a continuation of the long term bull market trend and potentially the end of the short term bear market I have spoken about.

Information in this chart above was taken from sources we believe to be reliable; however we do not guarantee its accuracy or completeness.

The Presidential Race:

Since my last market update, Hillary Clinton as expected has become the Presumptive Democratic Nominee for the President. It is certainly historic as she is the first woman to clinch the nomination of one of the major political parties. From an economic policy stand point, her policies will mirror to some extent what President Barack Obama has been doing for the past 8 years. We will come to learn more of the differences in the coming months between her plans and our current President's policies. Donald Trump has been very vocal on his plans as well. However, we need to see the finer details on how he intends on going about getting them done. The next several months will be entertaining I am sure. As we get more specifics from both candidates, we as investors will be able to analyze more specifically the economic effects and how they may affect invest decision.

Brexit:
The exit of Britain from the European Union cannot be ignored. There is the potential that if Britain does exit the EU some de-stabilization of the region may occur. Many countries are still working through large debt issues and should Britain leave, this could have a significant effect on the remaining European Union economies and the Euro as a currency. Although the probability of Britain's exit has been a moving target, the potential of de-stabilization of the region cannot be ignored.

Unemployment, Federal Reserve Policy:
May's unemployment rate came out at 4.7%, which was a drop of 0.3% from April's 5.0% rate. A drop like this is often a good thing to see, but it is only the headline number and does not tell the full story. In May only 38,000 jobs were created vs. the 162,000 jobs that economist expected. Also, the Labor Force Participation rate went down from April's 62.8 number to 62.6 in May. This number is a measure of the active portion of an economy's labor force. It is comprised of those people who are employed or actively looking for employment. That said, when you are no longer actively looking for a job you are also not included in the unemployment number. We can see that although the top line number for unemployment has gone down to 4.7%, it is not counting the people who are still unemployed and gave up looking for work. This has put the Federal Reserve in a position to wait at least one more month before making a decision to raise interest rates which they were poised to do for June. The Federal Reserve is responsible for monetary policy decisions that maximize employment, provide for stable prices and moderate long-term interest rates. Poor unemployment numbers require the Fed to pause with interest rate decisions. We will see what happens with next month's numbers to determine if there is a trend developing or if this is just a "blip" along the way to further labor market improvements.

As I am writing this, the market is taking a day of significant pause and is retreating. Last month I was looking for the 50 day moving average on the S&P 500 to hold as a resistance level. We had broken through it to the downside but after a few days below it we reversed and continued to march higher. Ultimately, the markets need to digest the newest set of possibilities and decide what the probabilities are going forward. Once that takes place I believe we could continue to see more upside potential in the market for the second half of the year.

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If you have questions or would like to discuss this further with regard to your personal portfolio please contact me at 310-433-5378.

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