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VIRGINIA ASSET GROUP

Market Week: August 1, 2016

The Markets (as of market close July 29, 2016)

The large-cap indexes cooled off a bit last week, particularly influenced by a somewhat disappointing GDP growth rate for the second quarter and lackluster earnings reports from some key companies. On the other hand, the tech-based Nasdaq and the small-cap Russell 2000 each posted weekly gains, with the Nasdaq leading the way among the indexes listed here. Treasury yields fell, with the benchmark 10-year Treasuries dropping 11 basis points by last week's end, likely influenced by falling oil prices. Abroad, the eurozone seems to be recovering from the initial shock caused by the Brexit vote, as the second-quarter GDP expanded at a modest 1.2% (the same as the U.S. GDP), which is ahead of the first-quarter pace.

Crude oil (WTI) prices continue to fall, closing at $41.38 a barrel last week, down from $44.21 per barrel the previous week. The price of gold (COMEX) jumped to $1,357.90 by late Friday afternoon, up from the prior week's price of $1,330.30. The national average retail regular gasoline price decreased for the sixth week in a row to $2.182 per gallon on July 25, $0.048 under the prior week's price and $0.563 below a year ago.

Market/Index	2015 Close	Prior Week	As of 7/29	Weekly Change	YTD Change
DJIA	17425.03	18570.85	18432.24	-0.75%	5.78%
Nasdaq	5007.41	5100.16	5162.13	1.22%	3.09%
S&P 500	2043.94	2175.03	2173.60	-0.07%	6.34%
Russell 2000	1135.89	1212.89	1219.94	0.58%	7.40%
Global Dow	2336.45	2396.80	2411.26	0.60%	3.20%
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%	1.56%	1.45%	-11 bps	-81 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

- While the latest estimate of the gross domestic product isn't particularly noteworthy, some of the underlying information bodes well for economic growth. The GDP grew at a 1.2% annualized rate in the second quarter, up slightly from the prior estimate of 1.1%. The annual growth rate for the GDP has been below 2.0% for the last three quarters. The final estimate of the first-quarter GDP showed a 0.8% annual rate of growth. On the plus side, consumer spending expanded at a rate of 4.2%--the highest growth rate since 2014. Spending for goods grew at a 6.8% rate, while spending on services expanded by 3%. The drawback to overall economic growth is on the business side of the GDP, which saw businesses scale back inventories and business investment.
- Following its July meeting, the Federal Open Market Committee noted that, while the labor market has continued to strengthen and economic activity has been expanding at a moderate rate, business fixed investment has been soft and inflation continues to run below the Committee's 2.0% target rate. Against

Key Dates/Data Releases

8/1: PMI Manufacturing Index, ISM Manufacturing Index

8/2: Personal income and outlays

8/3: ISM Non-Manufacturing Index

8/4: Factory orders

8/5: Employment situation, international trade

that backdrop, the Committee decided to maintain the target range for the federal funds rate at 0.25%-0.50%. The Committee does not meet again until mid-September.

- Demand for manufactured durable goods fell for the third consecutive month in June. Following May's 2.8% decline, new orders for durable goods in June fell another $9.3 billion, or 4.0%--the largest decrease since August 2014. Shipments of durable goods were up 0.4%, unfilled orders fell 0.9%, and inventories decreased 0.2%. This information predates the Brexit vote, which further strengthened the dollar compared to the pound and euro, likely leading to continued weakening of foreign demand for U.S. manufactured goods.
- The housing market continues to expand as new home sales increased by 3.5% in June over the prior month. Compared to last year, the rate of new home sales is 25.4% above the June 2015 estimate. The median sales price of new houses sold in June 2016 was $306,700; the average sales price was $358,200. The seasonally adjusted estimate of new houses for sale at the end of June was 244,000. This represents a supply of 4.9 months at the current sales rate--well below the available supply of 5.5 months in June of 2015.
- Primarily curtailed by affordability and supply constraints, pending home sales based on contract signings remained relatively the same in June compared to the prior month. The Pending Home Sales Index inched up 0.2% for the month to 111.0 (110.8 in May), but is 1.0% higher than June 2015 (109.9).
- The S&P-Case-Shiller U.S. National Home Price NSA Index reported a 5.0% annual gain in May, the same as the prior month. According to the report, home prices continue to increase across the country, while sales of existing homes in May reached the highest monthly level since 2007.
- The United States continues to spend more on imports than it receives for exports as the trade deficit for June grew by $2.2 billion (3.7%) over May. Exports of goods were $120.2 billion, while imports were $183.5 billion, for a net trade deficit of $63.3 billion.
- Labor costs continue to expand as evidenced by the employment cost index, which increased 0.6% for the second quarter. Employee costs grew at the same rate in the first quarter, and are up 2.3% year-on-year. Wages and salaries increased 0.6%, while benefit costs jumped 0.5% for the second quarter (2.5% and 2.0%, respectively, year-on-year).
- Consumers remain slightly more positive about current business and labor market conditions, according to the latest Conference Board Consumer Confidence Index®. The index for July, at 97.3, is essentially the same as the June index of 97.4. However, respondents in the University of Michigan's Surveys of Consumers were troubled by the Brexit vote, particularly those consumers in the top third in household income. Overall, the Index of Consumer Sentiment dropped a bit from 93.5 in June to 90.0 in July.
- In the week ended July 23, the advance figure for seasonally adjusted initial unemployment insurance claims was 266,000, an increase of 14,000 from the prior week's level. The advance seasonally adjusted insured unemployment rate rose to 1.6%. The advance number for seasonally adjusted insured unemployment during the week ended July 16 was 2,139,000, an increase of 7,000 from the previous week's revised level.

Eye on the Week Ahead

So far, the summer has been good for equities markets and most economic indicators. Two important reports are issued next week for the month of June: personal income and outlays and the employment situation. Personal income and outlays, offers information on consumer income, savings, and spending, which can offer a glimpse into the strength of the economy from the consumer's perspective. June's jobs report was encouraging following May's disappointing information. This report often has a direct impact on the U.S. stock markets as Wall Street tends to pay particular attention to several pieces of information from this report, including the unemployment rate, the number of new jobs added, and wage information.

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.
