Cambridge ADVISORS inc.
INVESTMENT MANAGERS

ECONOMIC UPDATE MAY 2016

LORI L. LIFFRING, CFA ♦ MICHAEL L. BRIDGMAN, ChFC ♦ JUSTIN S. ANDERSON, MBA AAMS ♦ KAREN K. BENEFIEL, CMT CPA
GAYLAN C. ABOOD, CHAIRMAN EMERITUS

Stocks continued their recovery in April. The S&P 500 came within 1.5% of its high reached in May 2015. The large cap stock index was up 0.4% for the month and 1.7% year-to-date. The Small Cap Russell 2000 index gained 1.6% during April making its year-to-date return flat at 0.0%. International stocks in the MSCI EAFE are still down -0.2% year-to-date after gaining 2.9% during the month. The ten-year US Treasury yield ticked up slightly to 1.84%

Preliminary estimates for first quarter GDP growth showed the slowest growth in two years at only 0.5%. Consumer spending softened during the quarter but with a healthy labor market, analysts anticipate that it will pick back up as the year progresses. Economists also note that the rally of the US dollar is mostly over so they expect exports to be stronger. Inventories had also been high and as businesses step up efforts to get rid of unwanted merchandise, inventories will need to be replenished. Even so, some analysts are beginning to lower their full year estimates to 1.5%-2.0% for 2016.

Corporate earnings reports are showing negative growth again in the first quarter for the S&P 500. This will be the fourth quarter in a row with negative growth year-over-year. On a positive note, of the S&P 500 companies that have reported so far, 72% exceeded their earnings expectations and 57% exceeded their revenue estimates. In addition, as oil prices and the dollar have stabilized and even reversed direction, year over year comparisons will start to improve and could return to positive growth in coming quarters.

After reaching a 12-year low in January below $27 per barrel, the price of oil has rebounded strongly and reached $48 per barrel in April. For the month, OPEC's oil production rose led by increases in Iran and Iraq. Inventories are still high as the market is oversupplied so most analysts do not expect the strength of the rally in oil prices to continue.

After a strong rise over the past year, the dollar has fallen about 5% since its peak in January. The dollar could weaken further in the next few months if China's economy has a soft landing (which is looking more likely according to some economists) and if the Fed stays more dovish. Longer term the dollar may be range bound.

Most analysts now believe that the Fed will remain on hold until at least June or even September before raising rates again. The Bank of Japan surprised analysts at the end of April when it also decided to cap its monetary stimulus. It had been cutting rates to the point that yields were actually negative.

Volatility is likely to continue as stocks are near their highs and earnings and economic growth have been disappointing. The upcoming election also creates uncertainty for future economic policies. As a result of these factors, consumer sentiment has also fallen in April. Bond yields have stayed close to their lows for the year indicating that bond investors are currently more cautious than stock investors. Diversification continues to be a prudent strategy. If you have questions regarding the strategy in your account, please do not hesitate to contact your advisor.