Domestic stocks climb higher in July

The dog days of summer don't seem to be slowing the markets down. The Dow Jones Industrial Average and the S&P 500 both reached new highs during July, and the S&P 500 notched its fifth consecutive monthly gain. According to research by Raymond James Chief Investment Strategist Jeff Saut, historically, any time the broad market S&P 500 has hit a new all-time high after 52 weeks spent below the previous high-water mark, we have seen average gains of 12.3% over the course of the next year. We also have seen an average pullback of 5.5% over the next 12 months, although the median average pullback is just 2.7%. Of course, it's important to remember that past performance may not be indicative of future results. This analysis does not include transaction costs which would reduce an investor's return. Adding to the positive momentum, earnings are coming in better than expected and should continue to do so, particularly when compared to the weaker third and fourth quarter numbers from last year.

	6/30/16 Close	7/29/16 Close	Change	Gain/Loss
DJIA	17,929.99	18,432.24	+502.25	+2.80%
NASDAQ	4,842.67	5,162.13	+319.46	+6.60%
S&P 500	2,098.86	2,173.60	+74.74	+3.56%
MSCI EAFE	1,608.45	1,689.12	+80.67	+5.02%

Performance reflects price returns as of market close on July 29, 2016.

Below are additional thoughts on the factors that are influencing the domestic and global markets.

Economy

- Gross domestic product (GDP) rose at a 1.2% annual rate in the second quarter, but would have been more than twice that pace if not for a decline in inventories (it's hard to say what is behind the contraction, according to recent commentary by Chief Economist Scott Brown).
- Leaner inventories ought to help boost production in the second half of the year, but businesses may remain cautious due to a soft global economy and election-year uncertainty.
- Consumer spending, which accounts for about 70% of GDP, rose sharply in the second quarter and averaged a 2.9% annual rate in the first half of 2016.

- Job growth has been uneven in recent months, but the underlying trend appears to be slower, reflecting some caution in hiring, but also tighter labor market conditions.
- Federal Reserve policymakers remain in tightening mode, looking to raise short-term interest rates at some point, but the rate increases are expected to be very gradual.

Equity markets

- Small-cap growth stocks and emerging market equities led the markets in July; both have struggled to keep pace with the rest of the market over the past year.
- As riskier assets lead, it could be a sign of the market's willingness to minimize global market news such as Brexit, elections and central bank policies, suggests Nick Lacy, Chief Portfolio Strategist for Raymond James Asset Management Services.

Fixed income

- The yields and liquidity of Treasuries and investment-grade corporate debt are driving strong demand.
- Patient investors in longer-term bonds have been rewarded. The benchmark 30-year Treasury, for example, is up nearly 20% over the past 12 months.
- "For investors willing to maintain longer-term bonds in their portfolios, duration truly has been their friend," explains Retail Fixed Income Strategist Benjamin Streed.
- Investment grade corporate credit in the U.S. is performing well, and Doug Drabik, Senior Strategist, Retail Fixed Income, believes there is more room to run and that longer duration credit can help investors hedge against equity market volatility. But, as always, he reminds us that it's important to know what you own and why.

Global

- British markets have rallied, attempting to recoup losses after the Brexit decision. Investors seem buoyed by the prospect of central bank stimulus to provide support.
- The European Central Bank is also primed to add a bit more support in September, so European asset prices also look perkier.

Bottom line

- The U.S. economy is expected to grow moderately, but a soft global economy will remain a restraint.

We will continue to monitor investment trends and the market environment, and share the most relevant information with you.

In the meantime, please feel free to call me if you have any questions. I look forward to speaking with you.