Economic Outlook / Investment Review

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ECONOMIC OUTLOOK

- Filings for U.S. unemployment benefits declined for a third consecutive week, signaling sustained firming in the labor market which was also noted in the Fed's Beige Book. Jobless claims fell by 1,000 to 267,000 in the week ended May 28, a Labor Department report showed. Consistent with falling claims, private payrolls climbed by 173,000, (matching forecasts), following a revised 166,000 gain in April, according to the ADP Research Institute. The ADP numbers were not confirmed, however, by a Labor Department (DOL) report that followed.

- According to the DOL report, the economy added just 38,000 jobs in May, the fewest number of workers in almost six years. Making the report even worse was the downward revision to the prior two months. The Verizon strike accounted for some of the weakness. The jobless rate dropped to 4.7%, the lowest since November 2007, but this was due to the drop in the participation rate. Average hourly earnings rose by 0.2% in May for an increase of 2.5% over the prior 12 months. The mixed message suggested by the conflicting employment reports may give the Federal Reserve pause, when it meets this month, in determining whether to raise interest rates. In fact, following the DOL report, the odds of a June rate hike fell to 4% from 23%, according to Bloomberg.

- U. S. real Gross Domestic Product (GDP) growth rose 0.8% (annualized) in the first quarter, 0.3 percentage points more than the advanced estimate. The increase was partly due to an upward revision in inventories which may subtract from second quarter GDP growth. The better growth news was offset by the ISM non-manufacturing data for May which fell to its lowest level since February 2014, although it's still expanding.

- New homes sales surged 16.6% in April (the latest data available) to 619,000 units (annualized), the highest since January 2008. Inventory stabilized over the last two months at around 240,000 units representing only 4.7 months of supply. Pending home sales of previously owned homes in April jumped 5.1%, the third consecutive gain and the largest increase since 2010, and the highest level since February 2006. Home price inflation accelerated 0.5 percentage point to 6.1% year-over-year according to the Federal Housing Finance Agency (FHFA). We expect the positive trend in housing to continue throughout the year, as long as the Fed doesn't commit a policy mistake by raising rates too aggressively.

- The European Central Bank (ECB) left its $2 trillion stimulus unchanged, but its President, Mario Draghi, kept open the possibility to more if inflation remains below its target of just under 2%. The ECB's inflation projection for 2017 and 2018 remained unchanged at 1.3% and 1.6%, respectively, indicating the likelihood of additional action to come. At the same time, the ECB raised its 2016 growth forecast for the eurozone economy to 1.6%. Meanwhile, in Japan, Prime Minister Shinzo Abe delayed the implementation of a 2 percentage point increase in the sales tax to October 2019. This inaction was an acknowledgement that Japan's economy remains fragile and that an increase in the tax could drive the economy back into recession. Mr. Abe is urging the Bank of Japan (BOJ) to expand its asset purchase program when it meets later this month. Britain will vote on June 23 whether to remain in the EU; the result will have significant implications for the eurozone.

INVESTMENT REVIEW

- In May, the Dow Jones Industrial Average was essentially flat, up less than 0.1%, the Nasdaq Composite rose 3.6% and the S&P 500 increased 1.5%. The MSCI Europe, Australia, Far East (EAFE) index fell -1.5% while the MSCI Emerging Markets index dropped -3.9%.

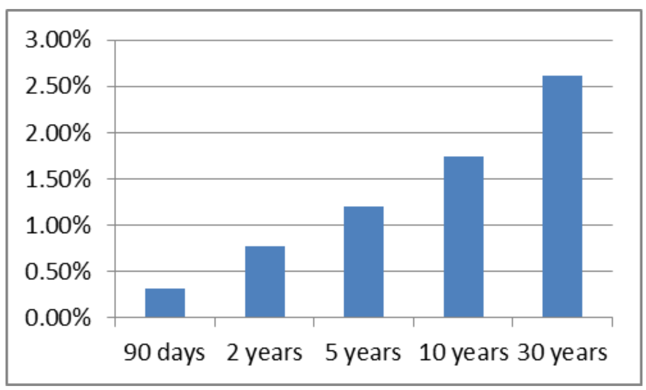
- Short-term interest rates increased on renewed speculation the Federal Reserve would raise the target federal funds rate in either the June or July meeting of the Federal Open Market Committee (FOMC).

- The U. S. dollar, after falling -5.7% in 2016 through April, rebounded in May +2.9% on better economic data and expectations of Federal Reserve tightening sooner than previously expected. Not surprisingly, gold sold-off. At the same time, the price of crude oil increased; although, the supply outages in Alberta no doubt contributed to the increase.

KEY INVESTMENT STATISTICS

	5/31/16	12 Month High	12 Month Low	YTD Price Change
Dow Jones Industrial Average	17,787	18,144	15,660	2.1%
Nasdaq Composite	4,948	5,219	4,267	-1.2%
S & P 500 Stock Index	2,097	2,128	1,829	2.6%
2016 Operating EPS Estimate	$122			
P/E on 2016 EPS	17X			
2017 Operating EPS Estimate	$130			
P/E on 2017 EPS	16X			
Dividend Yield	2.0%			
Yields on U.S. Treasury Obligations				
90 days	0.29%			
2 years	0.88%			
5 years	1.37%			
10 years	1.85%			
30 years	2.65%			
CPI: Trailing 12 Months (a/o 4/30)	1.1%			
Crude Oil: Price Per Barrel (WTI)	$49	$61	$26	
Gold: Price Per Ounce (spot)	$1,215	$1,293	$1,051	
Natural Gas: Price per MM Btu (spot)	$2.09	$2.95	$1.49	

U.S. Treasury Yields



Source: Bloomberg LLC, Thomson Financial, Dow Jones, U.S. Commerce Department, State Street Global Advisors.