301-770-9880
www.burtwealth.com

Monthly Market Commentary
May 2017

ECONOMY: US GDP Slows

Q1 GDP STILL WEAK, BUT BETTER

According to the second estimate of U.S. Q1 GDP, the economy expanded at 1.2%, an improvement over the original estimate of just 0.7%. While consensus expectations were for a smaller upward revision to 0.9%, consumer spending and investment were still relatively weak.

EMPLOYMENT REBOUNDS

Job creation slowed by more than expected in May, while a lower labor market participation rate helped push the unemployment rate to a 16 year low. The U.S. economy only added 138,000 jobs in May, while the consensus forecast was for an additional 182,000 jobs. Nonetheless, the unemployment rate fell to 4.3%. The broader measure of unemployment (or underemployment) fell to 8.4%, its lowest level since November 2007.

HOME SALES FALL – DEMAND STILL STRONG

New and existing home sales both fell further than expected in April. New homes sales declined 11.4%, while existing sales were down by 2.3%. However, both new and existing sales were running at recent highs. During the first four months of the year, new home sales were up 11.3% compared to the same period last year and existing home sales were up 4.1% compared to the first four months of last year. Housing demand remains strong, supported by the healthy job market and continued recovery in household finances.

SMALL BUSINESS OPTIMISM REMAINS HIGH

The National Federation of Independent Business Index of Small Business Optimism posted another historically high reading in April. However, expectations for future business conditions fell as small business owners reassessed Congress' failure at the end of March to repeal and replace The Patient Protection & Affordable Care Act (aka Obamacare). The Index dipped 0.2 points in April, settling at 104.5. April was the sixth straight month for historically high optimism, a streak not seen since 1983.

MOODY'S DOWNGRADES CHINA

Moody's Investors Service downgraded China's sovereign debt one notch to A1, the agency's fifth-highest rating. The agency specifically noted that China's financial health will erode somewhat over the coming years, with economy-wide debt continuing to rise as potential growth slows. It's the first time Moody's has cut the country's credit rating since 1989, and brings it more in line with Fitch and Standard & Poor's.

JAPAN GDP REVISED LOWER

Japanese GDP grew significantly less than originally estimated in Q1, with the second reading on economic activity negatively impacted by lower domestic demand. Japan's GDP grew 1% in Q1, down from an initial estimate of 2.2% and lower than the consensus estimate for an upward revision to 2.4%. Consequently, the Bank of Japan will likely maintain its Qualitative Easing (QE) program for the foreseeable future.

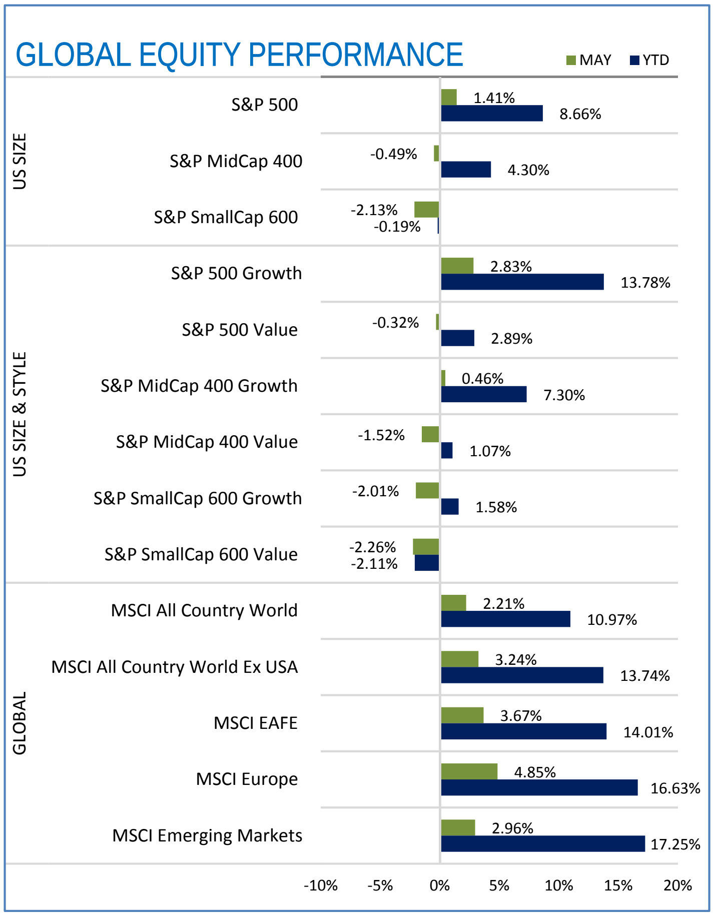
EUROZONE EXPERIENCING EXPANSION

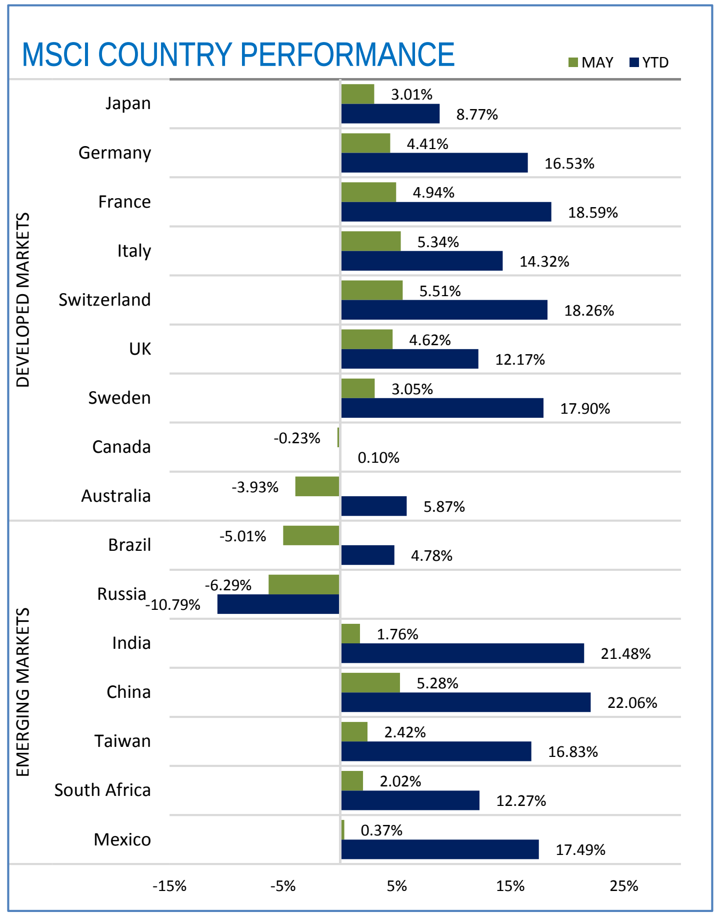
Business confidence in the Eurozone continues to strengthen, as the manufacturing PMI rose to 57.0 in May, its highest reading in six years. Business sentiment in Germany, the single largest economy in the euro area, rose in May to its highest level since German reunification occurred in 1991. Likewise, a widely followed index of consumer confidence in Germany rose to its highest level in 12 years.

BRAZIL CORRUPTION CONTINUES

Brazil emerged from its deepest recession on record in the first quarter. The economy grew 1% over the previous three months, according to the nation's statistics institute. That marked first quarter-on-quarter growth after eight consecutive quarters of contraction. However, a new corruption scandal involving President Michel Temer could plunge the economy back into recession as it threatens to derail the government's reform agenda aimed at restoring confidence in Latin America's largest economy.

GLOBAL EQUITIES: Earnings & Optimism





S&P 500 MOVES HIGHER

In May, the S&P 500 posted seven new closing highs, and gained 1.41%. Despite geopolitical tensions and terrorist attacks, volatility has remained low, with the VIX at 9.56 – a level not seen since December 2006. With only a few outstanding issues yet to report, Q1 earnings were successful overall. S&P 500 earnings increased 3.8% over Q4 2016, and 20.9% over Q1 2016. In total, 82% of companies either beat (74%) or met (8%) earnings expectations for the quarter.

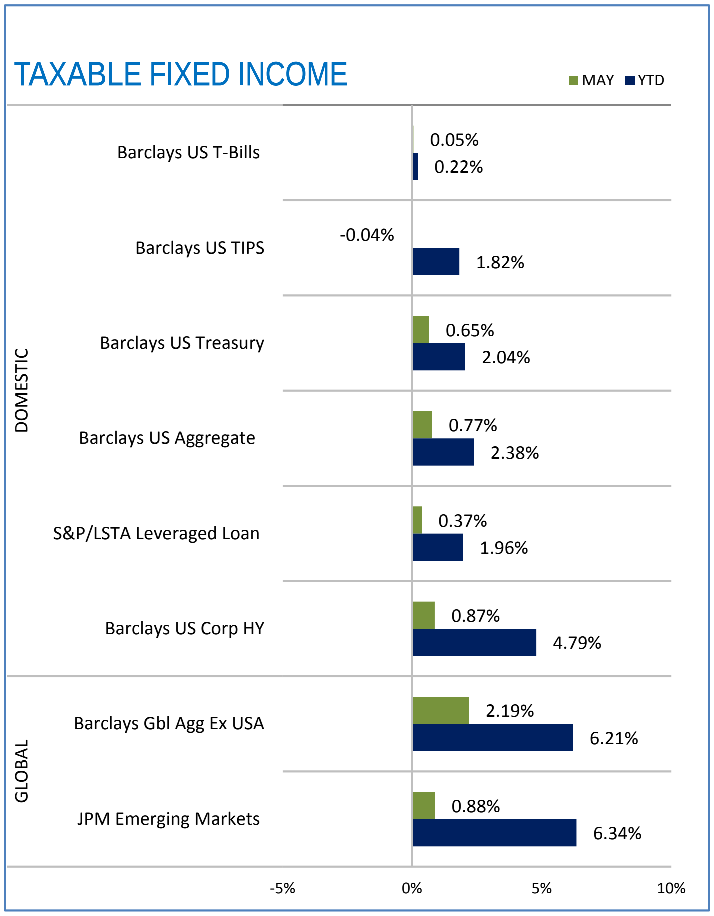
THE MACRON RALLY!!

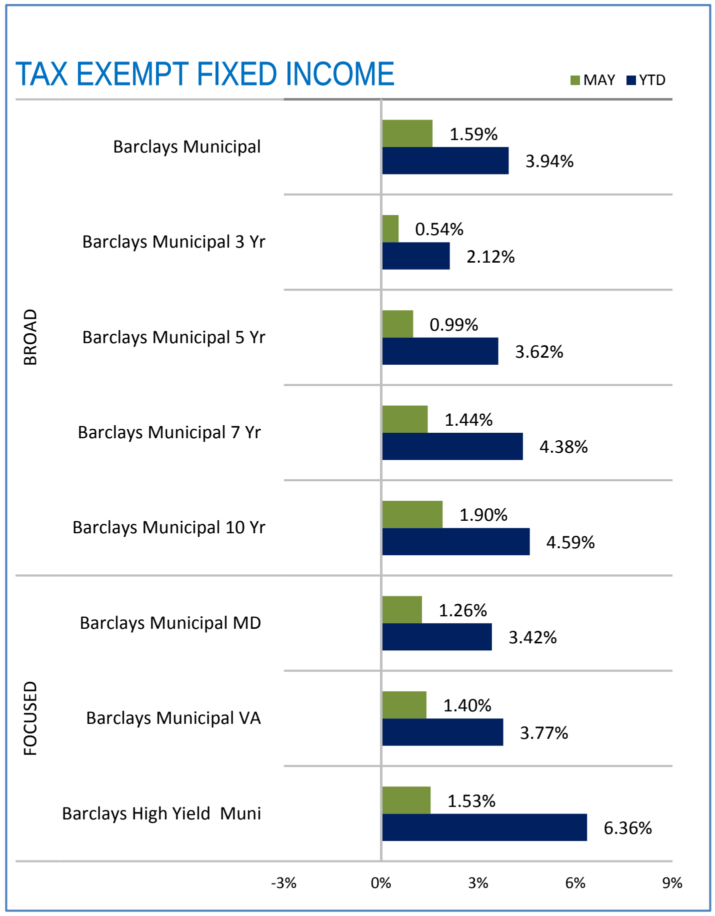
European equity markets continued their advance in May as the MSCI Europe Index gained 4.85%. Stocks rallied on the victory of pro-Europe centrist Emmanuel Macron in France's presidential elections which eased investor concerns. Positive Eurozone economic data also helped support the gains.

EMERGING MARKETS OVERCOME ADVERSITY

Emerging markets equities continued their momentum gaining 2.96% in May. Emerging Asia was the strongest performing region with all the equity markets in the area gaining ground. Korea led the gains followed by China, despite a sovereign bond rating downgrade by Moody's. Equity performance in the EMEA (Europe, Middle East & Africa) region was more mixed with weakness in Russia being offset by strength in Greece, Hungary and Egypt. Latin American equity markets were dragged lower by Brazil following corruption allegations against President Temer.

FIXED INCOME: Low Supply of High Yield





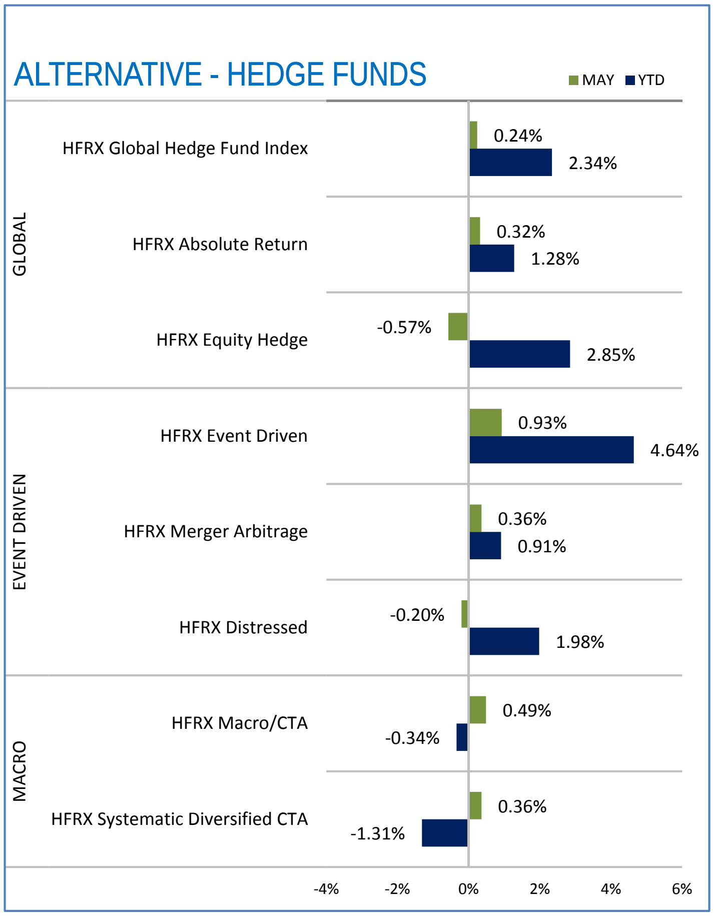
Yields Remain Below Post Election Highs

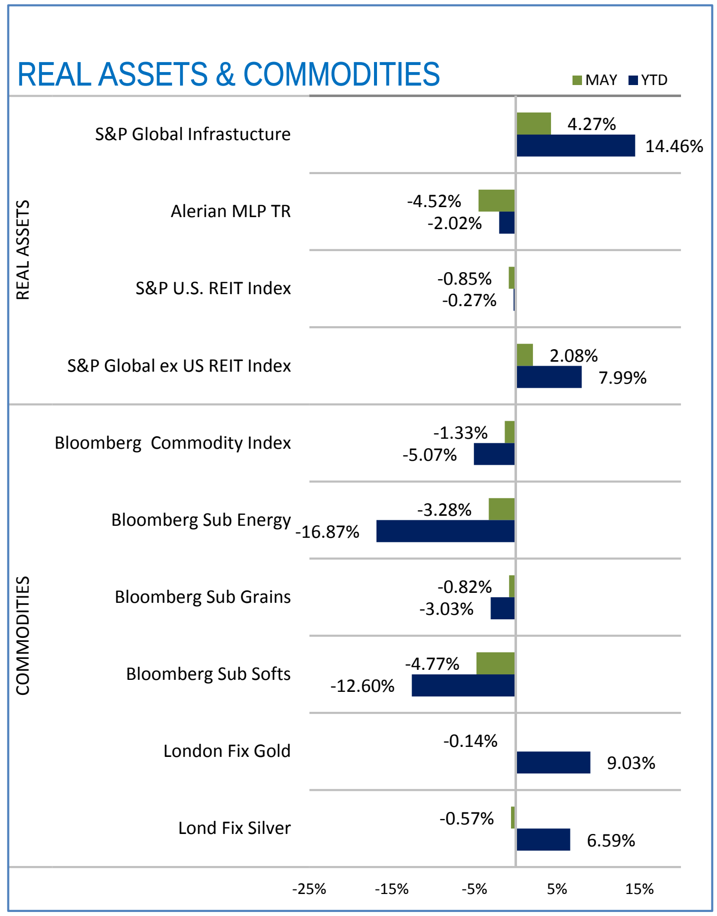
The bond market appears to be offering some signs of caution for investors. Weak growth in Q1, waning optimism over President Trump's fiscal agenda, and slowing inflation, all run contrary to the narrative of stronger growth that has dominated financial markets following the U.S. presidential election last November. The 10-year U.S. Treasury closed the month slightly down at 2.21%. This remains well above the 52 week low of 1.32%, but also well below the post election high in mid-March of 2.63%.

Profits Up…Supply Down

High yield bonds have performed well in 2017, returning 4.79%, despite historically low spreads (the extra yield for taking on the additional credit risk). Several factors have influenced the high yield market, including low relative interest rates, improving corporate profits, and declining supply. In terms of supply, total new U.S. high yield issuance was the lowest for the month of May since 2012 according to Bloomberg data. Additionally, the total face value of debt in the Bank of America/Merrill Lynch U.S. High Yield Index has fallen steadily since March 2016.

ALTERNATIVES: Funds Flow To Infrastructure





EVENT DRIVEN TOPS THE MONTH

Amidst mixed performance for the global financial markets in May, the HFRX Global Hedge Fund Index gained 0.24%. The HRFX Event Driven Index rose 0.93% in May primarily due to positive performance from special situations and merger arbitrage managers. Equity hedge strategies fell 0.57% as European markets rose and U.S. and emerging markets were mixed for the month.

BBQ TIME?

Livestock overtook precious metals in May to become the best performing sector in the Bloomberg Commodities Index YTD. Despite the broad index declining 1.33% in May, livestock gained 5.5% and is up 13.5% YTD. Energy weakness continues to pressure the index, as the sector is down 16.87% YTD.

INFRASTRUCTURE MOMENTUM

Investors poured an estimated $316.6 million into infrastructure-focused U.S. mutual funds and exchange-traded funds in May, according to data by Morningstar. The latest figures suggested investors are embracing President Trump's proposal of $200 billion in federal infrastructure funds with hopes to leverage $800 billion more in private and state government investments.