INDEPENDENT FINANCIAL SERVICES
RAYMOND JAMES®

Monthly Market Update
May 2017

Domestic Equities Trend Upward in May

The three major domestic stock indexes continued to climb in May, extending the trend seen since the November U.S. presidential election. Growth slipped a bit mid-month but picked back up toward the end.

Although equity benchmarks around the world have toyed with record highs in recent months, headwinds remain for continued global growth. Concerns linger around political tensions in North Korea and in Europe as Brexit negotiations begin. At home, investors are waiting for the new federal administration to fulfill expectations on infrastructure spending and tax reform.

According to Conference Board data, Americans seem slightly less optimistic about jobs and business growth this month, but that's in comparison to a 16-year high reached in March. Despite the slight decline, investors remain relatively confident that the domestic economy will continue its steady growth in the near term.

	4/28/17 Close	5/31/17 Close	Change	Gain/Loss
DJIA	20,940.51	21,008.65	**+68.14**	**+0.33%**
NASDAQ	6,047.61	6,198.52	**+150.91**	**+2.50%**
S&P 500	2,384.20	2,411.80	**+27.60**	**+1.16%**
MSCI EAFE	1,833.70	1,883.32	**+49.62**	**+2.71%**
Russell 2000	1,400.43	1,370.21	**-30.22**	**-2.16%**
Bloomberg Barclays Aggregate Bond Index	2,007.89	2,021.28	**+13.39**	**+0.67%**

Equities performance reflects price returns as of 4:30 EDT (Barclays is as of 12 a.m.) on May 31, 2017.

Markets have priced in a June hike in short-term rates from the Federal Reserve (Fed), according to Fixed Income Strategist Benjamin Streed. However, the central bankers may be concerned about the recent trend of soft inflation data. We also got clarity on the Fed's plan to slowly divest its ~$4.5 trillion balance sheet over a number of years. More details will follow in the months ahead, but markets reacted positively (bond prices higher, yields lower).

Here's a look at what else is going on in the economy and capital markets, as well as key factors we are keeping an eye on.

Economy

- The Federal Open Market Committee left short-term interest rates unchanged at its May meeting, as expected, while policymakers described the first-quarter slowdown in gross domestic product as "transitory."

- The unemployment rate fell further (4.4%) in April, while the underlying trend in nonfarm payrolls remained strong. On balance, the data are consistent with a June 14 Fed rate hike (although another employment report is expected on June 2).
- Consumer spending growth for the first quarter was revised higher, but remains soft. Business fixed investment was revised higher for the first quarter, but soft new orders hint at weaker results for the second quarter.

Equities

- The equity markets have transitioned from an interest-rate driven secular bull market to an earnings-driven one.
- Raymond James Chief Investment Strategist Jeff Saut believes that the "profits trough" for the S&P 500 occurred in the second quarter of last year with earnings gaining momentum ever since.
- For the first quarter, the estimated earnings growth rate for the S&P 500 is now 13.9%, which would mark the highest year-over-year earnings growth for the index since the third quarter 2011, according to Raymond James analysts.

International

- With the French election over, all eyes now turn to the June 8 meeting of the European Central Bank (ECB). Europe still needs extraordinary monetary policy support, which could help keep a lid on domestic yields as overseas investors see value in U.S. Treasuries.
- Market participants appear to be more enthusiastic about European equities and the euro given the possibility of economic reforms, according to Chris Bailey, European strategist, Raymond James Euro Equities*. He believes there are opportunities in pan-European investments.
- In Asia, the focus is on China's efforts to build diplomatic links and infrastructure to boost trade and wealth through the Belt and Road initiative, which is essentially a modern-day trade route through Asia and Europe.
- After making some headway, oil fell below $50 after OPEC voted to extend production cuts by nine months.

*An affiliate of Raymond James & Associates and Raymond James Financial Services

Fixed income

- The only somewhat significant change since the beginning of 2016 is an increase in the yield curve for short-term bonds (under one year). Five years and out, rates are slightly lower, despite two Fed rate hikes, according to Raymond James Senior Fixed Income Strategist Doug Drabik.
- Two significant observations: Rates do not move in unison across the curve and the market is dictating the longer-end of the curve, not the Fed.
- Demand for U.S. securities remains high as evidenced by strong foreign participation in Treasury auctions. Continued global rate disparity is one of the main reasons.
- As inflation remains low, real rates in the United States appear even more attractive than overseas rates.

- Short-term (i.e., less than five years) municipals appear expensive, while longer-dated 10- and 30-year bonds are more fairly valued, according to Fixed Income Strategist Benjamin Streed.
- There is a significant gap between reinvestment needs and newly available bonds, meaning muni demand outstrips supply, Streed explained.

Bottom line

Equity markets remain in a secular bull market that has years left to run, concludes Saut.

Please let us know if you have any questions about recent market events or how to position your long-term financial plan for the months ahead. We look forward to speaking with you.

Located at:
20635 Amberfield Drive, Suite 102
Land O'Lakes, Florida 34638

Jodi Perez
CFP®
Financial Advisor

Jeannie Holliday
CFA, CDFA™
Financial Advisor

Patrick Kelley
Financial Advisor

For more information, please give us a call at: **813-908-2701 or 1-888-811-181**

Email us at ifs@raymondjames.com

Securities offered through Raymond James Financial Services, Inc., member FINRA / SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc. Securities are not deposits, not insured by FDIC or any other government agency, not guaranteed by First National Bank of Pasco, and are subject to risks, including the possible loss of principal. Independent Financial Services and First National Bank of Pasco are not registered broker/dealers and are independent of Raymond James Financial Services, Inc., member FINRA / SIPC.

Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of the Research Department of Raymond James & Associates, Inc., and are subject to change. Past performance is not an indication of future results and there is no assurance that any of the forecasts mentioned will occur. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small cap securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. An investment cannot be made in these indexes.

International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets. Small and mid-cap securities generally involve greater risks. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. The performance noted does not include fees or charges, which would reduce an investor's returns. Asset allocation and diversification do not guarantee a profit nor protect against a loss. Debt securities are subject to credit risk. A downgrade in an issuer's credit rating or other adverse news about an issuer can reduce the market value of that issuer's securities. When interest rates rise, the market value of these bonds will decline, and vice versa. While interest on municipal bonds is generally exempt from federal income tax, it may be subject to the federal alternative minimum tax, state or local taxes. Material prepared by Raymond James for use by its advisors.

Raymond James Financial Services does not accept orders and/or instructions regarding your account by email, voice mail, fax or any alternate method. Transactional details do not supersede normal trade confirmations or statements. Email sent through the Internet is not secure or confidential. Raymond James Financial Services reserves the right to monitor all email. Any information provided in this email has been prepared from sources believed to be reliable, but is not guaranteed by Raymond James Financial Services and is not a complete summary or statement of all available data necessary for making an investment decision. Any information provided is for informational purposes only and does not constitute a recommendation. Raymond James Financial Services and its employees may own options, rights or warrants to purchase any of the securities mentioned in this email. This email is intended only for the person or entity to which it is addressed and may contain confidential and/or privileged material. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this message in error, please contact the sender immediately and delete the material from your computer.

©2017 Raymond James & Associates, Inc., member New York Stock Exchange/SIPC