Tech stocks have experienced some rocky moments in the market recently, but the information technology sector of the S&P 500 still leads all industries in performance through the first six months of 2017. Despite a dip in June, the tech sector is up 17.23% through the first half of 2017—well above the 9.34% total return of the S&P 500 this year.

Much of that growth has come from a handful of the tech industry’s largest companies, including Apple and the four “FANG” stocks—Facebook, Amazon, Netflix and Google (now officially Alphabet).

Although all five were down 4.58% in June, they are up 24.74% for 2017 and 43.27% over the past 12 months. (See: “Don’t Blame Amazon for Wave of Retail Store Closings”)

Amazon is up 29.09% for the first half of 2017 and 35.27% for the past 12 months; Facebook is up 31.23% for 2017 and 32.11% over 12 months; Netflix is up 20.69% for the year and 63.33% for 12 months; Alphabet is up 17.32% for the year and 32.15% the past 12 months, and Apple, is up 25.38% so far this year and 53.50% the past 12 months.

The health care sector, after a strong month, has closed the gap on the tech sector—up 4.62% in June and 16.07% in 2017. (See: “Medical Technology Conquering Many of Mankind’s Major Maladies”)

But while tech and health care have soared, the oil industry continues to slump amidst a lingering imbalance between global supply and demand. Oil prices, which began the year at $53.72 a barrel (West Texas Intermediate), ended the second quarter at $46.04 per barrel—down 4.72% for the month and 14.3% for the year. Those falling prices have been reflected in the stock market; the S&P 500 energy sector declined for the sixth consecutive month in June—down 0.18% for the month and 12.61% for the year.

Despite efforts by OPEC to curtail production and drive up oil prices by bringing supply and demand more into balance, rising supplies from the U.S. and other oil-producing nations have dampened the effectiveness of OPEC’s cuts. (Watch video: “The Oil Recovery and Your Price at the Pump”)

Here are some other highlights from the month, covered in more detail later in this report (Exhibit 1):

- **Retail sales dip.** Retail sales in May slipped 0.3% from April, according to the U.S. Department of Commerce. However, year-over-year sales have still been solid, up 4.4% from the same period a year earlier. (See: “Don’t Blame Amazon for Wave of Retail Store Closings”)

- **Unemployment hits 16-year low.** The unemployment rate dropped to just 4.3% in May—the lowest rate since May 2001—according to the U.S. Department of Labor.
Fed rate hike. The Federal Reserve Board raised rates for the third time in the past seven months in June by 25 basis points (0.25%) to a new range of 1.00% to 1.25%. But market yields on 10-year U.S. Treasuries barely moved. (See: “Fed Hikes Rates for Second Time This Year”)

GDP revised up. First quarter gross domestic product (GDP) growth was revised up to 1.4% annualized growth, according to the third estimate released by the Bureau of Economic Analysis on June 29. The original estimate had been 0.7%.

Personal spending up slightly. Personal consumer expenditures increased by 0.1% in May, according to estimates released June 30 by the U.S. Bureau of Economic Analysis. It was the fifth straight month of increased consumer spending. Personal income was up 0.4% for the month.

Drilling down

US stocks flat for the month but solid for the year

Stocks were fairly flat in June, with the S&P 500 up 0.48% in June from 2,411.80 at the close of May to 2,423.41 at the close of trading June 30 (Exhibit 2).

The S&P is up 8.24% for the first six months of 2017 and up 0.48% in the second quarter. The total return of the S&P 500 for June was 0.62%. For the year, the total return was 9.34%.

The NASDAQ also had a slow month, down 0.94% in June, but it was up 14.07% for the year from 5,383.12 at the close of 2016 to 6,140.42 at the close of trading June 30.

Employment keeps climbing

The unemployment rate dropped to just 4.3%—the lowest rate since May 2001—according to the U.S. Department of Labor, Bureau of Labor Statistics Employment Situation report issued June 2. The unemployment rate has dropped 0.5% since January while the number of unemployed has fallen by 774,000 this year. May was the 80th consecutive month of job growth.

Average hourly earnings for all employees on private nonfarm payrolls rose by just $0.04 to $26.22. Year-over-year, average hourly wages have risen by $0.63, or 2.5%.

The labor force participation rate for those in their prime working years (age 25 to 54) dropped slightly to 81.5% from 81.7% in April. That is about 1.5% below the prerecession level, and continues to be a concern.

The number of Americans collecting unemployment benefits remains in the lowest range since 1974 at about 1.94 million, according to the U.S. Department of Labor weekly claims report issued June 24. There were about 244,000 new claims for the week, marking 121 consecutive weeks of unemployment claims under 300,000—the longest stretch since 1970. (See: “Unemployment Dips to 16-Year Low as Job Growth Hits 80 Straight Months”)

Retail sales sluggish

Retail sales in May slipped 0.3% from April, seasonally adjusted, concluding a fairly modest six-month period for the retail market, according to the June 14 retail sales report from the U.S. Department of Commerce.
But while retail sales growth has been modest in 2017, year-over-year sales have still been solid. Total sales for the three-month period from March through May were up 4.4% from the same period a year earlier.

Building materials and garden supplies continued a strong pace in 2017, with May sales up 10.8% from a year earlier. Non-store retailer sales (primarily online) have also continued to grow at a strong pace, with May sales up 10.2% year-over-year from May 2016.

Meanwhile, department store sales continue to slump, down 3.7% from a year earlier. (See: “Don’t Blame Amazon for Wave of Retail Store Closings”)

**Sector returns**

June was a mixed month for the 11 S&P 500 sectors, with five of the sectors posting gains and the other six posting losses. The leaders were financials, up 6.43%, and health care, up 4.62%. Biggest losers of the month were telecom services, down 2.92%, information technology, down 2.70%, and utilities, also down 2.70% for the month.

For the year, nine of the 11 sectors were up, led by information technology, up 17.23%, and health care, up 16.07%. But the two losers have both suffered double-digit losses for the year.

The energy sector was down 12.61% and the telecom services sector was down 10.74% through the first six months of 2017.

Exhibit 3 shows the results for all 11 sectors.

**Bond yields keep sinking despite Fed rate hike**

The Federal Reserve Board raised rates for the third time in the past seven months June 14, following an eight-year stretch during which the Fed adjusted rates only once.

The Fed agreed to raise the federal funds target rate by 25 basis points (0.25%) to a new range of 1.00% to 1.25%. (See: “Fed Hikes Rates for Second Time This Year”)

While the rate hike helped boost financial stocks, it did little to stem the decline in the market yields for 10-year U.S. Treasury bonds, which slipped to new low for the year in June at about 2.10% before bouncing back to end the month at 2.30% (Exhibit 4).

That was up slightly from the 2.21% yield at the close of May, but well below the 2.44% yield at the close of 2016.

Although the rate for long-term bonds, such as 10-year Treasuries, has remained near historic lows, money market and other shorter term rates are up slightly this year. Financial stocks also rallied in June, corresponding with the Fed rate hike.
Equity earnings projections rise

The consensus 12-month forward earnings estimate for the S&P 500 is up this year, from $132.83 per aggregate share at the close of 2016 to $139.25 at the close of the second quarter of 2017 (Exhibit 5). The increase in forward earnings projections has helped buoy the stock market at fairly full levels relative to historic levels.

As Exhibit 6 illustrates, the forward 12-month price/earnings ratio (P/E) for the S&P 500 ended the second quarter at 17.5, which was up slightly from the 16.9 level at the close of 2016, but down slightly from the 17.6 level at the close of the first quarter of 2017.

The drop in the P/E reflected an increase in earnings projections for S&P 500 companies this year.

The forward 12 months earnings yield for the S&P 500, which is the inverse of the P/E, ended the quarter at 5.75%, which was down from 5.93% at the close of 2016, but up slightly from the 5.71% yield at the end of the first quarter of 2017 (Exhibit 7).

These two factors—a slight dip in P/E and a slight rise in the earnings yield—reverse a long-standing trend since 2011 in which stocks had become increasingly expensive relative to the earnings produced by the companies in the S&P 500. But even though the P/E dropped slightly over the past quarter, the current 17.5 P/E is still near the seven-year high, and nearly 3% above the historic average.

If corporate earnings growth continues to strengthen, that should offset the higher P/E, but if earnings flatten or decline, that could spell trouble for the market. The 12-month forward earnings yield can be helpful in comparing stock earnings yields with current bond yields.

At 5.75%, the equity earnings yield is still significantly higher than the 2.30% market rate of U.S. Treasuries, but that gap has narrowed by nearly 1.00% since bond yields hit their low mark in July 2016.

Dollar mixed versus euro and yen

The euro continued to move up versus the dollar in June (Exhibit 8). It was up 1.43% for the month and 8.13% for the year versus the dollar.

However, the value of the dollar is still at an elevated level—approximately 20% higher than it was in 2014 relative to the world’s other major currencies.
The yen dropped slightly versus the dollar in June, down 1.61% for the month, but up 3.67% versus the dollar for the first six months of 2017 (Exhibit 9).

**Oil still reeling**

Oil prices sank lower in June, continuing a trend that has persisted throughout the first six months of the year (Exhibit 10). The price of oil closed the month of June at $46.04 (West Texas Intermediate), down 4.72% from the May close at $48.32. For the year, oil prices are down 14.30% from the Dec. 31, 2016 price of $53.72.

OPEC has been attempting to limit production to bring the global oil supply back into balance with demand since last November. But rising supplies from the U.S. and other oil-producing nations have limited the effectiveness of OPEC’s efforts. (Watch video: “The Oil Recovery and Your Price at the Pump”)

**Gold prices dip**

Gold prices dropped in June, continuing a sluggish year for the precious metal (Exhibit 11). After a mid-month rally, gold closed June at $1,242.30 per ounce, down 2.60% from the May close of $1,275.40. For the year, gold is still up 7.87% from the 2016 closing price of $1,151.70 per ounce.

**International market takes a breather**

The international stock market trended down in June after a strong start to 2017 (Exhibit 12). The MSCI EAFE Index, which closed June 30 at 1,883.19, was down 0.36% from its May 31 close of 1,890.06, but up 11.83% from its 2016 close of 1,684.00.

**Outlook from Chief Investment Strategist Mark Simenstad**

Here’s what we see ahead for the economy and the markets:

**Headwinds**

Even though corporate earnings growth seems to be improving, manufacturing output and productivity growth continue to be at fairly low levels. We would also like to see more corporate investment in such areas as infrastructure, equipment and intellectual property.
Oil prices have continued to trend down this year as the gap between supply and demand remains an issue for the global market. As a result, the S&P 500 energy sector declined for the sixth consecutive month in 2017. However, we believe that growing global demand will ultimately help balance supply and demand, which should drive up oil prices and improve the performance of the energy sector.

Despite a decline in the value of dollar versus both the euro and yen this year, it still remains at a relatively high level. A strong dollar may be good for consumers and net importers, but it makes American goods and services less competitive abroad. It also makes foreign earnings less valuable when translated into dollars.

Even in the midst of an 80-month streak of rising employment, we remain concerned by the relatively low workforce participation rate among workers in their prime age of 25 to 54. We are also concerned about the slow increase in wage levels, which remain below the median income of 2009. (See: “Where's My Raise? As Employment Climbs, Wage Growth Left Behind”)

Retail sales have been sluggish recently, with department store sales continuing to erode, but we expect consumer spending to be fairly solid in the coming months since employment growth has been strong and the economy appears to be on sound footing.

The S&P 500 financial sector had been sluggish this year due, in large part, to historically low interest rates, but the sector rallied in June, which coincided with another Fed rate hike.

**Tailwinds**

At 4.3%, unemployment is at the lowest level in 16 years. Although the workforce participation rate is relatively low, it continues to improve as more Americans enter the workforce. Wages have been slow to rebound to prerecession levels, but as the labor market tightens, we could also see a faster increase in wages. That could be a positive for the economy, pushing up both consumer spending and savings rates, although it would also likely lead to steeper inflation growth.

The housing market continues to perform well, with solid building activity and recovering home prices in many parts of the country. The building supplies and gardening sector of the retail sales market has been particularly strong this year, up 10.8% from a year ago.

Corporate earnings appear to be strengthening after a sluggish period, indicating that the steady increase in consumer spending may be paying off for U.S. companies. The modest drop this year in the value of the U.S. dollar will help earnings of U.S. multinationals and exporters. However, we believe the dollar remains overvalued, with room for further declines. The dollar is about 20% higher than it was in 2014 relative to the world’s other major currencies.

Even amidst the drop in oil prices this year, U.S. oil producers have increased production, leading to more jobs and greater revenue within the industry. Although profit margins are thin for some producers, if oil prices begin to rebound in the months ahead, the profit picture will improve.

**Expectations**

Corporate earnings and revenue expectations appear to be rising this year, while other economic factors, such as housing starts and employment, have been solid. Consumer spending and retail sales, which slipped in May, should still be fairly strong in the months ahead.

We believe the employment market will continue to add jobs this year, which should continue to drive a much-needed increase in wages. GDP growth should improve in the second half of the year, despite the 1.4% annualized first quarter growth.
We believe the total GDP growth for this year will be about 2.3%, which is in line with the consensus view, according to the Blue Chip Economic Indicators. (See: "Weak GDP Growth Figure Obscures Economic Gains")

We believe that inflation growth may edge up this year, but remain at a modest pace for the near future. The consensus view for inflation is 2.4% for 2017 and 2.3% for 2018, which is slightly higher than our projections, but faster wage growth and increasing consumer spending could hasten the rate of inflation growth.

Although the economy appears to be strengthening, we are unsure whether the Fed will make any additional rate hikes this year. But, the Fed has expressed its intention to continue raising rates over the next two years. But with three hikes in the past seven months, we don’t expect another hike in the near future unless economic growth picks up significantly. (See: “Fed Hikes Rates for Second Time This Year”)

For net savers, we believe a series of small rate hikes would be beneficial without adversely affecting the economy or consumer spending. In fact, money market rates have increased slightly this year, giving investors a small return on their savings.

Globally, over the next 12 months, we estimate that China will have GDP growth of about 7.0%, Japan will have growth of 1.5%, Europe will have growth of about 2.0% and the UK will grow about 3.0%.

The U.S. economy has been trending in a positive direction recently, but GDP growth is still projected to be a relatively pedestrian 2.3% this year. We would like to see economic growth increase beyond that rate. Though we are not forecasting a recession, the risk of recession was high and rising several months ago. However, we believe that over the last several months the risk has been diminishing.

For the recovery to continue, we would like to see a continuing increase in corporate earnings, as well as more spending on corporate infrastructure, higher rates of production, healthy consumer spending, and continuing improvement in the employment market.

---

1S&P 500 health care sector
2Source: Organization for Economic Cooperation and Development

**Thrivent Asset Management Contributors to this report:** Russell Swansen, Chief Investment Officer; David Francis, CFA, Head of Equity; Mark Simenstad, CFA, Head of Fixed Income; John Groton, Jr., CFA, Director of Equity Research; Darren Bagwell, Sr. Equity Portfolio Manager; and Jeff Branstad, CFA, Senior Investment Product Strategist; Thrivent Distributors, LLC

**Media contact:** Callie Briese, 612-844-7340; callie.briese@thrivent.com

All information and representations herein are as of June 30, 2017, unless otherwise noted.

The views expressed are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Thrivent Asset Management associates. Actual investment decisions made by Thrivent Asset Management will not necessarily reflect the views expressed. This information should not be considered investment advice or a recommendation of any particular security, strategy or product.

This article refers to specific securities which Thrivent Mutual Funds may own. A complete listing of the holdings for each of the Thrivent Mutual Funds is available on ThriventFunds.com.

**Past performance is not a guarantee of future results. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon, and risk tolerance.**

Indexes are unmanaged and do not reflect the fees and expenses associated with active management. Investments cannot be made directly into an index.

The S&P 500® Index is a market-cap weighted index that represents the average performance of a group of 500 large-capitalization stocks.
The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ (National Association of Securities Dealers Automated Quotations) is an electronic stock exchange with more than 3,300 company listings.

The MSCI EAFE Index measures developed-economy stocks in Europe, Australasia and the Far East.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

1839459-070517