MADISON PARK
CAPITAL ADVISORS

WEEKLY MARKET UPDATE

March 13, 2017

An Anniversary, and a Streak Ends

Major equity markets ended last week slightly lower than the previous one, with the S&P 500 index recording its first weekly decline since mid-January. Once again, smaller companies lagged their large-cap brethren, this time for the fourth straight week. The small-cap Russell 2000 Index now rests approximately 3.5% below the all-time high it reached on March 1st, while the technology-heavy Nasdaq Composite outperformed and ended within 0.9% of its record high. **It was duly noted that last week marked the eighth anniversary of the bull market that began in March 2009.**

With recent gains, some investors are beginning to worry that equity valuations have grown stretched, although those concerns are not new. There were several notable political developments, including the release of the Republicans' health care plan, with no discernable market affect. Having said that, few seemed to notice on Thursday that stocks briefly sold off after White House Press Secretary Sean Spicer confirmed that President Trump remained committed to restoring the Glass-Steagall Act. The depression era legislation enforced separation of commercial and investment banking and was partially repealed in the late 1990s. Many analysts blame that partial rollback, at least in part, for the financial crisis of 2008.

Declining oil prices weighed on energy shares during the week and dragged the overall market lower. **On Thursday, a report on increasing U.S. oil inventories pushed the price of a barrel of domestic crude below $50 for the first time since December.** While OPEC production cuts fostered a rebound in oil prices in late 2016, many energy analysts and investors believe that improvements in drilling and exploration - particularly in U.S. shale fields - will continue to keep supplies elevated and prices contained.

Markets spent much of the week in anticipation of February jobs data. On Wednesday, payroll processor ADP released its tally, which showed the biggest jump in private payrolls in over a decade. Friday's official report from the Labor Department was not quite as robust but still strong, showing a gain of 235,000 jobs in the month. **Most importantly, hourly earnings rose 0.2% in February and were revised higher for previous months, leaving them trending at an annualized growth rate of almost 3%. Job gains were also particularly strong in goods-producing industries.**

With the labor market on solid footing and other economic signals, such as durable goods orders, also flashing green, the futures market reflected a growing certainty that the Federal Reserve would raise short-term interest rates at its monetary policy meeting that ends on March 15 (this Wednesday). Longer-term Treasury yields increased for the week, with the yield on the 10-year note touching its highest level since mid-December.

European markets ended the week generally flat. Retail stocks were lower early in the week, following lackluster UK retail sales figures. A fallback in Germany's factory orders also quieted markets. A sell-off in oil shares midweek was followed by a recovery by Friday. Bank shares gained some ground in the pan-European Euro Stoxx 600 index, following signals that interest rates are unlikely to decrease further.

The European Central Bank (ECB) kept interest rates and its monetary stimulus program unchanged at its March monetary policy meeting. **At a press conference following the announcement, ECB President Mario Draghi hinted that the central bank is gradually moving toward ending its stimulus measures,** omitting a pledge that had been included in previous statements to use "all the instruments available within its mandate" from his March introductory statement. Draghi also said that there were no apparent risks of deflation, as Eurozone inflation reached 2% in February, above the ECB's 1.8% goal.

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