



INCISIVE INVESTOR

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WEEK IN REVIEW: STOCKS CONTINUE WINNING STREAK

Review of the week ended March 3, 2017

- **Major indices set records**
- **Gold loses**
- **Hike anticipated at March FOMC meeting**
- **House of Lords seeks Brexit bill amendments**
- **Global growth uptick continues**

U.S. stocks finished higher for the week as Federal Reserve Chairwoman Janet Yellen signaled a March rate hike was likely appropriate. The Dow Jones Industrial Average advanced to finish at 21,005.71. For the week, the Dow closed up 0.9%, for a fourth week of gains. The S&P 500 index closed higher at 2,383.12, with financial and health-care stocks leading gains. For the week, the S&P 500 closed up 0.7%, for a sixth winning week. The Nasdaq Composite index finished up at 5,870.75, for a 0.4% gain on the week, notching a sixth straight week of gains.

Gold futures settled with a loss on Friday, with the yellow metal shedding more than 2% this week to settle at \$1,226.50 an ounce—the lowest finish since Feb. 14, according to FactSet data.

Yields on the 10-year US Treasury note rose strongly — to 2.49% from 2.32% — as investors moved to price in an interest rate increase from the US Federal Reserve. Despite growing

economic optimism, oil prices fell this week on increased US inventories. West Texas Intermediate crude fell \$1 per barrel to \$53.00 this week while global Brent fell to \$55.50 from \$56.50. Volatility remains subdued, with the Chicago Board Options Exchange Volatility Index at 11.50.

Market is pricing in a March Fed move

The week began with markets pricing in about a 50% chance of a hike in the federal funds rate at the Federal Open Market Committee meeting this month but ended with markets almost fully pricing in a quarter-percent hike. Hawkish comments from the troika of Fed chair Janet Yellen, Vice Chair Stanley Fischer and New York Fed president William Dudley helped seal expectations of a March hike.

Two reports show optimism is building

A sizable uptick in the closely watched ISM manufacturing purchasing managers' index and a jump to a 15-year high in the Conference

Board's consumer confidence measure were two standout data points in the United States this week, keeping the reflation trade firmly on track.

More records for major indices

More records were broken this week as the reflation rally extended further. The Dow Jones Industrial Average closed above 21,000 for the first time on Wednesday, while the S&P 500 Index brushed 2,400. London's FTSE 100 also closed at a record high on Wednesday, boosted in part by a weak pound.

Earnings season about to close

With 98% of companies reporting for the fourth quarter of 2016, the earnings growth rate for the S&P 500 is 4.9%. According to FactSet Research, the fourth quarter will mark the first time the index has seen year-over-year growth in earnings for two consecutive quarters since Q4 2014 and Q1 2015. Sales growth for Q4 is running at a 4.9% rate, according to FactSet. The 12-month forward P/E ratio is now 17.9%, which is above

the 5- and 10-year average.

GLOBAL NEWS

Brexit process hits speed bump

Despite suffering a defeat in the House of Lords over the Brexit bill, UK prime minister Theresa May insists her timetable for triggering Article 50 will not be delayed. The Lords voted to amend the Brexit bill in order to force the government to guarantee the rights of citizens of the European Union living in the UK. The bill will now be referred back to the House of Commons, where May is expected push to reject the amendment.

Good News on Several Fronts

China's PMI showed strength as well, though the eurozone's and United Kingdom's PMIs were less robust. However, economic sentiment in the Eurozone reached a six-year high. Also notable in the Eurozone this week was an energy-driven rise in inflation to near the European Central Bank's 2% target. This is the first time consumer price inflation has reached the target in four years.

THE WEEK AHEAD

- **The People's Bank of China meets to set interest rates on Monday, March 6**
- **Q4 Eurozone gross domestic product is released on Tuesday, March 7**
- **Japan releases Q4 GDP figures on Wednesday, March 8**
- **China reports its trade balance on Wednesday, March 8**
- **The European Central Bank holds a rate-setting meeting on Thursday, March 9**
- **The US February employment report is released on Friday, March 10**