

## MARKET COMMENTARY

March 10, 2017

Equities performed well in February, as market momentum increased amid White House reassurances that details of President Trump's plans for tax reform and infrastructure spending would be released within a matter of weeks. The S&P 500 advanced for a fourth consecutive month, finishing February with its strongest monthly gain since March 2016. After gaining just 0.6% in January, the Dow Industrials gained 5.17% in February, outpacing gains in the broader market. Both the Dow and S&P 500 registered daily gains in all but four of February's 19 trading sessions. Stocks finished lower on the last day of the month on jitters ahead of President Trump's first address before a joint session of Congress, and on hawkish comments from Federal Reserve policymakers. New York Fed President William Dudley said the economic case for a rate hike has become "a lot more compelling," while San Francisco Fed President John Williams said he expects "serious consideration for a rate hike" at the March 14-15 Federal Open Market Committee meeting.

Nine of the 11 major sector groups finished higher in February, with Healthcare (+6.43%), Utilities (+5.28%), and Financials (+5.2%) posting the strongest gains. Materials (+0.69%) rose the least, while Energy (-2.19%) and Telecom (-0.39%) lagged. Two months into the first quarter, Technology (+9.77%), Healthcare (+8.82%), and Consumer Staples (+6.68%) are this year's top performing sectors. Energy shares (-5.71%) are down the most on a year-to-date (YTD) basis, amid forecasts that rising U.S. production will push crude oil inventories to record levels.

Large cap stocks, as measured by the S&P 500, performed best in February, outperforming small and mid cap shares. The Russell Mid Cap Index gained 2.83% last month, while the Russell 2000 Index, a measure of smaller sized companies' share performance, rose 1.93%. Growth stocks outperformed value stocks in February, with the Russell 1000 Growth Index up 4.15%, while the Russell 1000 Value Index returned 3.59%. The outperformance in growth stocks was even more pronounced on a year-to-date basis, with growth shares up 7.66%, while value stocks trailed with a 4.33% YTD gain.

The MSCI EAFE Index, a broad performance measure of global developed markets outside of the U.S. and Canada, underperformed relative to emerging market equities in February, rising 1.43%. The MSCI Emerging Markets Index extended gains with a 3.06% February advance, twice the gain of the MSCI EAFE Index.

Prices on benchmark 10-year U.S. Treasury notes climbed last month, sending its yield down 6.3 basis points to 2.391%. The Bloomberg Barclays U.S. Municipal Bond Index gained 0.69% last month, while the Bloomberg Barclays U.S. Aggregate Bond Index, a broader measure of U.S. investment grade bonds, rose 0.67%. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, a proxy for below investment grade corporate bonds, was once again the best performing domestic bond index, returning 1.46%.



## SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q4 2016	1.9%	↑	The second estimate of GDP growth in the 4 <sup>th</sup> quarter of 2016 showed no change in the general picture of economic growth. Growth was still slower than the 3.5% rate seen in Q3.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2016	3.1%	n/a	The IMF lowered its global growth forecast twice in 2016, citing subdued outlook following the Brexit decision. The outlook for modest global growth remains unchanged for 2017.
Non-Farm Employment Growth	Feb 2017	235,000	↔	Job creation remained robust in February, beating economist expectations. Workforce participation and wage growth were both positive as well.
Unemployment Rate	Feb 2017	4.7%	↓	The unemployment rate was little changed in February, but down from 4.9% a year earlier. Job gains occurred in construction, educational services, manufacturing, health care, and mining.
ISM Manufacturing Index	Feb 2017	57.7	↔	Activity in the manufacturing sector increased 1.7% in February, reaching a 3-year high. Growth was driven by strong domestic demand, particularly investment spending in the energy sector.
ISM Non-Manufacturing Index	Feb 2017	57.6	↑	Activity in service-related industries grew by 1.1% in February, to the highest level since October 2015. Business activity, new orders, and employment each contributed to the increase.
Capacity Utilization	Jan 2017	75.3	↔	Capacity utilization for the industrial sector fell 0.3% in January. Utilization for manufacturing and mining both saw gains, but were offset by a large decrease in utilization for utilities.
Consumer Price Index (CPI, NSA)	Jan 2017	0.6%	↑	Consumer prices rose by 0.6 in January, the largest increase in four years. A large contributor was a jump in energy and gas prices. Excluding food and energy, core CPI rose by 0.3%.
Producer Price Index (Finished Goods, NSA)	Jan 2017	0.6%	↑	Producer prices increased in January, due to advances in both final demand goods and services. Removing food and energy from the index still results in an increase in prices.
Leading Economic Indicators Index (LEI)	Jan 2017	0.6%	↑	The LEI Index increased sharply again in January and the gain was broad based across all leading indicators. If the trend continues, the U.S. economy may accelerate in the near term.
10-year Treasury Yield	Feb 2017	2.36%	↔	Treasury yields were down slightly at the end of February, after reaching as high as 2.51% during the month. It is widely believed that the Fed will raise rates again in March.

\*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

## GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	Feb Close	Feb	Year-to-Date	1 year	3 years	5 years
<b>US Indices</b>						
Dow Jones 30	20,812	5.17%	5.82%	29.33%	11.18%	12.77%
S&P 500	2,364	3.97%	5.94%	24.98%	10.63%	14.01%
Nasdaq	5,825	3.91%	8.43%	29.37%	11.91%	15.88%
Russell 2000	1,387	1.93%	2.33%	36.11%	6.93%	12.89%
<b>International Indices</b>						
MSCI EAFE (Developed)	6,760	1.45%	4.39%	16.31%	-0.17%	5.63%
MSCI EM (Emerging)	1,990	3.07%	8.71%	29.94%	1.73%	-0.02%
<b>US Fixed Income</b>						
Bloomberg Barclays US Aggregate	--	0.67%	0.87%	1.42%	2.64%	2.24%
Bloomberg Barclays US TIPS	--	0.47%	1.32%	3.36%	1.89%	0.77%
<b>Commodities and Real Estate</b>						
Bloomberg Commodity Index	178	0.21%	0.34%	15.95%	-13.02%	-9.82%
Crude Oil (\$/bbl)	--	\$54.01	\$53.72	\$33.75	\$102.59	\$107.07
DJ US Select REIT	9,636	3.50%	2.62%	14.99%	11.34%	11.20%



**Sources:** Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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