

NASDAQ Composite Takes Early Lead

January 17, 2017 - Most stocks advanced on Friday, with the S&P 500 paring a modest weekly decline, while the NASDAQ Composite posted a near 1% gain last week, finishing at a fresh record high. Investor confidence in the economy was bolstered by generally positive economic data, including a strong pick-up in December retail sales. A rebound in auto sales led the advance, with overall retail sales up 0.6% last month, following a 0.2% November increase. For all of 2016, sales rose 3.3%, exceeding the 2.3% gain the year prior. The week was a turnaround for a number of sectors that have outperformed since Donald Trump’s presidential election victory. Energy shares retreated nearly 2% and financial shares slipped.

In other key economic data, small business optimism surged in December by the most since 1980, reaching the highest level since 2004. Consumer credit increased by \$24.5B in November, led by the largest increase in credit card debt in eight months. Import prices firmed last month, primarily due to rising oil prices, while weekly mortgage applications rebounded with a 5.8% increase. The University of Michigan’s preliminary reading of consumer sentiment for January continues to hover near its highest level in 12 years, while index officials noted party affiliation influenced the comments from 44% of respondents, who were either complaining or complimenting current governmental policy. That exceeds the normal level of 20%.

For the week, the Dow Industrials fell 0.39%, the S&P 500 dipped 0.09%, while the NASDAQ Composite advanced 0.96%. Seven of the 11 major sectors registered declines last week, with Real Estate (-2.23%) and Energy (-1.9%) falling the most. Consumer Discretionary (+0.84%) and Technology (+0.77%) were last week’s top performers. The US Dollar Index weakened 1.01% over the week, ending at 101.18, while gold futures advanced just over \$20/oz. for a second week, finishing at \$1,197.58. Crude oil declined by \$1.62/barrel. Prices on Treasury securities increased, sending the yield on 10-year Treasury notes down 2.3 basis points to 2.397%.

What We’re Reading

[**IMF Boosts U.S. Growth Forecast ↗**](#)

[**Pound Surges on May’s Brexit Vision ↗**](#)

[**Chinese President Defends Free Trade at Davos ↗**](#)

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Week’s Economic Calendar

Monday, January 16: Martin Luther King, Jr. Day – All U.S. Markets Closed;

Tuesday, January 17: Empire State Manufacturing Report;

Wednesday, January 18: Mortgage Applications, Consumer Prices, Industrial Production; Housing Market Index, Beige Book;

Thursday, January 19: Housing Starts, Jobless Claims, Philly Fed Business Outlook Survey;

Friday, January 20: No major releases.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-0.39%	0.62%	9.87%	0.62%	23.07%	6.94%
S&P 500	-0.09%	1.67%	7.24%	1.67%	22.94%	10.03%
NASDAQ Composite	0.96%	3.57%	7.24%	3.57%	24.65%	12.00%
Russell 3000	0.00%	1.73%	7.88%	1.73%	24.54%	9.57%
MSCI EAFE	0.82%	2.61%	4.77%	2.61%	10.31%	-0.76%
MSCI Emerging Markets	1.69%	3.92%	0.99%	3.92%	25.70%	-0.465

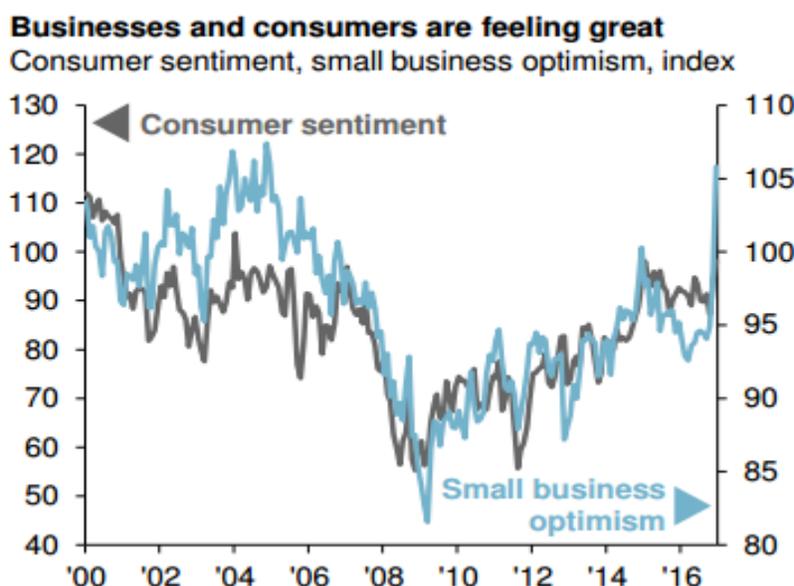
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.20%	0.37%	-2.18%	0.37%	2.08%	2.85%
Barclays Municipal	0.66%	1.17%	-1.61%	1.17%	0.60%	4.13%
Barclays US Corp High Yield	0.20%	1.17%	2.52%	1.17%	19.86%	4.80%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.36%	1.20%	2.74%	1.20%	19.01%	-10.61%
S&P GSCI Crude Oil	-1.56%	-1.06%	4.52%	-1.06%	70.12%	-16.70%
S&P GSCI Gold	2.19%	4.12%	-4.65%	4.12%	10.26%	-1.42%

Source: Morningstar

Chart of the Week: Consumers and Business Now In Alignment

Chart 1



Source: National Federation of Independent Business (NFIB), University of Michigan, J.P. Morgan

Consumers and businesses are finally on the same page. According to J.P. Morgan, one of the characteristics of this expansion has been the sentiment disconnect between small businesses and the purchasers of their goods and services. Consumers have been feeling pretty good, consistently

rating their personal situations positively and voicing optimism about the economy as a whole, while small business owners have disagreed.

This difference has had important implications for wages. Agreeing on wage increases is difficult when each side of the table has a radically different view of the economic situation. As shown in Chart 1 above, these attitudes have shifted and both small business owners (as measured by the NFIB Small Business Optimism Index) and consumers (as captured in the University of Michigan Consumer Sentiment Index) are now feeling pretty good. In fact, both are feeling the best they have in more than 12 years.

Having both workers and their bosses on the same page may lead to long-expected wage increases in the near future. As inflation has already begun to gain steam, such an increase in wages could boost price growth even more and leave the Fed behind the curve in the later part of 2017. For investors, this sentiment shift may serve as a reminder to be aware of the consequences of rising inflation when making investment decisions this year.

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Glossary

The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

MSCI Emerging Markets is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.

The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

*The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.*