

MARKET COMMENTARY

February 6, 2017

All three major U.S. equity averages registered their first January gains since 2013. The S&P 500 ended the month with four days of declines, paring an otherwise solid January performance. Since the November 8th elections, equity averages have rallied on optimism over President Trump's pro-growth policies, including fiscal spending on infrastructure, corporate tax cuts and reduced regulations. However, gains have stalled recently, with investors stepping back from shares in financials, materials and industrial companies, the areas of the market that had rallied the most. Analysts point to recent mixed earnings and economic reports for the month-ending angst, while others note the global discord over the Trump Administration's move to temporarily restrict immigration from seven Middle East nations. With one-third of S&P 500 companies so far reporting fourth quarter earnings results, approximately 75% have topped analysts' profit forecasts, while around half have exceeded their sales projections. Earnings forecasts for all S&P 500 companies are projected to rise 4.7%. Yet, if long-run trends continue, fourth quarter earnings growth could climb over 8%, as actual results have historically topped initial estimates by an average of 3.6%.

Eight of the 11 major sector groups finished higher in January, led by Materials (+4.64%), Technology (+4.41%), and Consumer Discretionary (+4.24%). Energy (-3.60%) and Telecom (-2.48%) lagged the most last month. Energy shares, particularly oil & gas producers, declined as crude oil prices fell 1.7% in January amid rising domestic production levels that more than offset output cuts by OPEC member nations.

By market capitalization, mid cap stocks performed best in January, outperforming small and large cap shares. The Russell Mid Cap Index returned 2.41% last month, while the Russell 2000 Index, a measure of smaller-sized companies' share performance, rose just 0.39%. Growth stocks widely outperformed value stocks in January, with the Russell 1000 Growth Index up 3.37%, while the Russell 1000 Value Index returned just 0.71%.

The MSCI Emerging Markets Index surged 5.47% in January, far outpacing domestic equities. Emerging

markets have benefited from the recent slide on the U.S. dollar, which has retreated to a 12-week low. The MSCI EAFE Index, a broad performance measure of global developed markets outside of the U.S. and Canada, also outperformed U.S. equities, gaining 2.90% last month.

Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, rose 0.23% in January. Prices on 10-year U.S. Treasury notes were little changed last month, sending its yield up only one basis point to 2.454%. The Bloomberg Barclays U.S. Municipal Bond Index gained 0.66% last month, while the Bloomberg Barclays U.S. Aggregate Bond Index, a broader measure of U.S. investment grade bonds, rose 0.20%. 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 the best performing domestic bond index, returning 1.45%.



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 advance estimate of Q4 GDP showed a decrease from the prior quarter's 3.5% rate. The deceleration in real GDP reflected a downturn in exports and federal government spending.
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 the same for 2017.
Non-Farm Employment Growth	Jan 2017	227,000	↔	The U.S. jobs report surprised to the upside, adding 227,000 jobs in January versus 175,000 expected. However, there was little wage pressure, with hourly earnings up just 3 cents.
Unemployment Rate	Jan 2017	4.8%	↓	The unemployment rate ticked up slightly in January, as did the labor force participation rate. Job creation was strongest in retail, construction, and financial services industries.
ISM Manufacturing Index	Jan 2017	56.0	↔	Activity in the manufacturing sector increased 1.5% in January, reaching its highest level since November of 2014. The overall economy grew for the 92 nd consecutive month.
ISM Non-Manufacturing Index	Jan 2017	56.5	↑	Activity in service-related industries grew in January. The employment component rose as did price pressures. Activity has remained strong during the second half of 2016.
Capacity Utilization	Dec 2016	75.5	↔	Capacity utilization for the industrial sector increased 0.6% in December. Increases were seen in utilization for manufacturing, mining, and most of all utilities.
Consumer Price Index (CPI, NSA)	Dec 2016	0.0%	↑	Consumer prices were unchanged in December, but have increased 2.1% over the last 12 months. The average annual increase over the last 10 years has been 1.8%.
Producer Price Index (Finished Goods, NSA)	Dec 2016	0.6%	↑	Producer prices increased in December and for all of 2016. The majority of the monthly advance was due to an increase in final demand goods and services also inched up.
Leading Economic Indicators Index (LEI)	Dec 2016	0.5%	↑	December's large gain in economic indicators was driven by improving sentiment and rising stock prices, and suggests the business cycle showed strong positive momentum in the final months of 2016.
10-year Treasury Yield	Jan 2017	2.45%	↔	Treasury yields were unchanged for the first month of 2017. Bond prices remained relatively steady after falling sharply in Q4 of 2016.

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

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	Jan Close	Jan	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	19,864	0.62%	0.62%	23.89%	10.88%	12.28%
S&P 500	2,279	1.90%	1.90%	20.04%	10.85%	14.09%
Nasdaq	5,615	4.35%	4.35%	23.23%	12.36%	16.25%
Russell 2000	1,362	0.39%	0.39%	33.53%	7.89%	13.00%
International Indices						
MSCI EAFE (Developed)	6,664	2.91%	2.91%	12.59%	1.17%	6.52%
MSCI EM (Emerging)	1,931	5.48%	5.48%	25.88%	1.18%	0.55%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	0.20%	0.20%	1.45%	2.59%	2.09%
Bloomberg Barclays US TIPS	---	0.84%	0.84%	4.02%	1.88%	0.61%
Commodities and Real Estate						
Bloomberg Commodity Index	177	0.14%	0.14%	13.83%	-11.31%	-9.37%
Crude Oil (\$/bbl)	---	\$52.81	\$53.72	\$33.62	\$97.49	\$98.48
DJ US Select REIT	9,310	-0.86%	-0.86%	10.11%	11.91%	10.19%



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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