MARKET COMMENTARY

April 12, 2017

The S&P 500 surged just over 6% in first three months of this year, its strongest quarterly performance since the fourth quarter of 2015. Benefiting from a double-digit rally in technology shares, the NASDAQ Composite performed the best among major U.S. averages, returning 10.13% for its best three month gain since 2013. Meanwhile, the Dow Industrials rose 5.19% for its sixth consecutive quarterly gain, representing its longest winning streak since the end of 2006. The quarter was characterized by gains associated with President Trump's pro-growth policies and backed by a strengthening economy considered strong enough to withstand a ¼-point Fed rate hike on March 15th. Investor optimism was also bolstered by a solid recovery in corporate earnings, up 9.3% according to the Commerce Department, the most since 2012. Notwithstanding a fade in momentum in early March (as doubts intensified whether or not Republicans could deliver legislative passage of the President's ambitious plans), well over 65% of companies in the S&P 500 advanced in the first quarter. First quarter gains extended a rally that began just before the 2016 elections, pushing the S&P 500 up 14.31% since October 4th.

By market capitalization, U.S. small cap companies outperformed large and midcaps last month, but trailed them on a quarterly basis. The Russell 2000 Index, a broad measure of small cap equity performance, rose 0.13% in March, whereas the Russell Mid Cap Index fell 0.16%. Mid cap stocks gained 5.15% in the first quarter, while the Russell 2000 Index rose 2.47%. Growth-oriented stocks outperformed value stocks both in March and for the quarter. The Russell 1000 Growth Index rose 1.16% in March and advanced 8.91% during the first quarter. In contrast, the Russell 1000 Value Index fell 1.02% last month and gained 3.27% during the first three months of the year.

Within the S&P 500 Index, eight of the 11 major sector groups declined in March, with Financials (-2.77%), Telecom (-1.15%), and Energy (-1.03%) falling the most. Technology (+2.55%), Consumer Discretionary (+2.05%), and Materials (+0.48%) outperformed last month. For the quarter, Technology (+12.57%), Consumer Discretionary (+8.45%) and Healthcare (+8.37%) led all sectors, while Energy (-6.68%) and Telecom (-3.97%) were the worst performers.

The MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, outperformed domestic equities in both March and the first quarter. The MSCI EAFE rose 2.75% last month and advanced 7.25% on the quarter.

The Stoxx Europe 600 Index rose 3.44% in March and gained 6.30% in the first quarter, capping its longest stretch of gains since 2014. Even as British Prime Minister Theresa May invoked the EU charter Article 50 clause to formally trigger Brexit, the U.K.-based FTSE 100 Index rose 1.23% last month, capping a 3.67% first quarter gain. Meanwhile, Japan's Nikkei 225 retreated fractionally last month and for the quarter, falling 0.47% and 0.38% respectively.

Emerging market stocks rebounded from a 4% fourth quarter 2016 loss, as the MSCI Emerging Markets Index gained 2.52% in March, extending its first quarter gain to 11.45%. The first quarter's emerging markets performance has already outpaced its own 11.19% full-year gain in 2016, which was its first annual gain in four years.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, were little changed in March (-0.04%), slightly paring a quarterly gain to 0.68%. The yield on benchmark 10-year Treasury notes ended the first quarter at 2.39%, just 5.7 basis points below where it began the year at 2.45%. Investment grade bonds of all types, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, fell 0.05% in March, trimming its first quarter gain to 0.82%. Higher-rated corporate bonds delivered strong gains as the Bloomberg Barclays U.S. Corporate Investment Grade Bond Index returned 1.22% for the quarter.

Municipal bonds outperformed government and other investment grade bonds, as the Bloomberg Barclays Municipal Bond Index rose 0.22% last month, extending its first quarter gain to 1.58%, its best quarterly gain in nine months. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns of below-investment grade corporate bonds, fell 0.22% in March.

SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q4 2016	2.1%	↑	The 3rd estimate of Q4 GDP was increased by 2 bps. The general picture of economic growth remains the same, but personal consumption expenditures were more than previously estimated.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2016	3.1%	n/a	The prospects for stronger global growth in 2017 appear brighter versus the prior year. One positive influence has been the recent improvement in global industrial production which in turn has translated to stronger global trade.
Non-Farm Employment Growth	Mar 2017	98,000	↔	Job creation was weaker than expected in March, with retail job losses cited as the major culprit. Weather related affects were also believed to add to the weakness.
Unemployment Rate	Mar 2017	4.5%	↓	The unemployment rate ticked down to a 10-year low in March, while the labor force participation rate was unchanged. Wage growth also increased, and is up 2.7% on an annualized basis.
ISM Manufacturing Index	Mar 2017	57.2	↔	Activity in the manufacturing sector increased in March, but at a slower pace than the prior month. All 18 manufacturing sectors reported growth in new orders for the month.
ISM Non-Manufacturing Index	Mar 2017	55.2	↑	Activity in service-related industries grew in March, but at a slower pace than the prior month. Business activity, new orders, and employment each saw slower growth in March.
Capacity Utilization	Feb 2017	75.4	↔	Capacity utilization for the industrial sector fell 0.1% in February. Utilization for manufacturing and mining both saw gains, but were offset by a large decrease in utilization for utilities.
Consumer Price Index (CPI, NSA)	Feb 2017	0.3%	↑	Consumer prices rose by 0.3 in February. The gasoline index declined, partially offsetting increases in several other indexes, including food, shelter and recreation.
Producer Price Index (Finished Goods, NSA)	Feb 2017	0.1%	↑	Producer prices increased 0.1% in February and were higher by 2.2% over the last 12 months. This is the largest annual advance since 2012. Both goods and services increased.
Leading Economic Indicators Index (LEI)	Feb 2017	0.6%	↑	The LEI Index increased in February for the 6th consecutive month, putting the index at its highest level in over a decade. Leading indicators point to an improving outlook for 2017.
10-year Treasury Yield	Mar 2017	2.40%	↔	Treasury yields were slightly higher at the end of March, after rising to 2.62% mid-month. The Fed increased rates by 0.25% on March 15th.

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

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	Mar Close	Mar	Year- to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	20,663	-0.60%	5.19%	19.91%	10.61%	12.15%
S&P 500	2,363	0.12%	6.07%	17.17%	10.37%	13.30%
Nasdaq	5,911	1.57%	10.13%	22.88%	13.43%	15.28%
Russell 2000	1,386	0.13%	2.47%	26.22%	7.22%	12.35%
International Indices						
MSCI EAFE (Developed)	6,954	2.87%	7.39%	12.25%	0.96%	6.32%
MSCI EM (Emerging)	2,041	2.55%	11.49%	17.65%	1.55%	1.17%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	-0.05%	0.82%	0.44%	2.68%	2.34%
Bloomberg Barclays US TIPS	---	-0.05%	1.26%	1.48%	2.03%	0.97%
Commodities and Real Estate						
Bloomberg Commodity Index	173	-2.66%	2.33%	8.71%	- 13.91%	- 9.54%
Crude Oil ($/bbl)	---	$50.60	$53.72	$38.34	$101.58	$103.02
DJ US Select REIT	9,365	-2.81%	-0.27%	1.21%	9.96%	9.45%

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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