INCISIVE INVESTOR

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WEEK IN REVIEW: STOCKS ON AN APRIL HIGH

Review of the week ended April 28, 2017

- **All major benchmarks up in April**
- **US Q1 economic growth rate slumps to 0.7%**
- **Trump outlines tax reform proposal**
- **US slaps tariffs on Canadian lumber**
- **ECB maintains dovish stance**
- **Merkel takes hard line on Brexit**

All three major equity benchmarks closed out April firmly in positive territory. The Dow Jones Industrial Average closed at 20,940.51 thus posting a weekly climb of 1.9% and rose 1.3% for the month. The S&P 500 index finished at 2,384.20 having gained 1.5% this week, its best weekly stretch since the period ended Feb. 17, and added 0.9% in April.

The Nasdaq Composite Index ended at 6,047.61 after big gains this week from tech heavyweights Amazon and Alphabet following their upbeat earnings. This helped NASDAQ advance 2.3% this week, crossing the psychologically significant mark of 6,000 for the first time ever on Tuesday to mark its strongest such gain since Jan. 6. For the month the NASDAQ finished up 2.3%, representing its six straight monthly gain—the longest stretch of monthly gains since a seven-period ending in May 2013.

Global equities staged a relief rally after this round of the French presidential elections. The rally lifted the MSCI World Index to an all-time high on Wednesday. US Treasury yields backed up to 2.31% from 2.22% a week ago as risk aversion ebbed. Oil prices fell to $49.00 from near $50 a barrel last week as fresh Libyan crude supplies hit the market. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), shed recent gains, sliding to 10.6 from 14.7 a week ago.

US growth slows

Restrained by weak consumer demand, 2017 got off to a sluggish economic start in the United States, with the economy growing just 0.7%, the weakest quarter of growth in three years. Harsh winter weather has often been blamed for weak growth in the first quarter, but this winter was fairly tranquil. The consistent Q1 growth shortfall has some economists questioning if there are flaws in the government's seasonal adjustment methodology. Looking ahead, forecasts for Q2 growth are running in the 3% to 4% range.

Trump moves to taxes

The Trump administration turned its attention to tax reform this week, releasing an outline of a proposal it will send to Congress. Under the plan, seven tax brackets would be reduced to three, the corporate tax would be slashed to 15% from 35% and the deductibility of state and local taxes would be ended.

US tariffs hit Canadian lumber

President Donald Trump surprised the markets this week by slapping levies of up to 24% on softwood lumber imports from Canada. Analysts see the imposition of tariffs as setting the tone ahead of talks on reforming the North American Free Trade Agreement. Trump said this week that he will not withdraw from NAFTA “at this time”.

EARNINGS NEWS

According to Lipper, as of 26 April, with 242 of the S&P 500 companies reporting, aggregate earnings for Q1 2017 are expected to rise 12.4% from Q1 2016. Excluding the energy sector, earnings are expected to grow 8.7%. Revenues are expected to grow 7.2% versus a year ago, 5.2% when excluding the energy sector.

GLOBAL NEWS

Draghi calms fears

The European Central Bank surprised markets by maintaining a more dovish tone than many had expected. Bank president Mario Draghi allowed that downside economic risks had diminished, but he offered no hints as to whether or when the ECB will begin to dial back its asset purchases. Draghi said the recent inflation uptick was probably temporary and that underlying pressures are likely to remain subdued. Meanwhile, the Bank of Japan indicated it would maintain its present ultra-loose monetary policy amid signs of slightly stronger domestic growth but still-very-low inflation.

Merkel toughens on Brexit

With 27 EU leaders gathering on Saturday, April 29th for a summit on Brexit, German chancellor Angela Merkel took a particularly hard line on the matter in a speech before the Bundestag. Merkel said that officials in London are harboring "illusions" if they expect preferential treatment during the break-up negotiations.

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THE WEEK AHEAD

- **Markets in China, much of the Eurozone and the UK are closed for their Labor Day on Monday, May 1**
- **Purchasing managers’ indices are reported for China, Japan and the US on Monday, 5/1**
- **Eurozone unemployment is reported on Tuesday, May 2**
- **Eurozone GDP is released on Wednesday, May 3**
- **The non-manufacturing PMI for the US is reported on Wednesday, May 3**
- **Eurozone March retail sales data are released on Thursday, May 4**
- **The US employment report is due on Friday, May 5**