



INCISIVE INVESTOR

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WEEK IN REVIEW: JOBS AND FINANCIALS ARE STRONG

Review of the week ended February 3, 2017

- **US nonfarm payrolls up by 227,000**
- **UK parliament vote moving the Brexit process**
- **Fed sees improved consumer and business sentiment**
- **Trump chides trading partners**
- **Eurozone growing faster than US**

The Dow Jones Industrial Average rallied to 20,071.46, its first close above 20,000 since Jan. 27, led by a sharply higher financial sector. For the week, however, the average closed down 0.1% lower.

The Nasdaq Composite Index to close at a record 5,666.77, for a weekly gain of 0.1%.

The S&P 500 index climbed to finish at 2,297.42, with 10 of the 11 main sectors closing in positive territory, for a weekly gain of 0.1%.

On Friday the financial sector popped 2%, and was by far the biggest gainer of any S&P 500's sector. Shares of J.P. Morgan Chase & Co., Bank of America Corp. and Citigroup Inc. all closed up more than 2%, while Goldman Sachs Group Inc. and Morgan Stanley both finished up more than 4%. Goldman alone contributed about 40% of the Dow's daily gains, or about 72 points.

The January employment report was somewhat less rosy than the 227,000 rise in

payrolls would indicate. A downward revision from 204,000 to 164,000 in November payrolls saw the three-month moving average drop to 183,000 from 187,000, even after today's strong headline print. Wages rose only 2.5% year over year in January, compared with 2.9% in December. The unemployment rate ticked up to 4.8% in January from 4.7% in December, though the labor participation rate rose to 62.9% from 62.7% a month ago.

US 10-year note yields fell to 2.43% from 2.50% a week ago. For the week, West Texas Intermediate crude rose to \$54.10 per barrel from \$53.10 on increased tensions between the United States and Iran following an Iranian missile test. Global Brent rose to \$57.15 per barrel from \$55.40. Volatility, as measured by the Chicago Board Options Exchange Volatility Index (VIX), rose to 11.25 from 10.8 last week.

Fed stands pat, notes improved sentiment

While the US Federal Reserve left monetary policy unchanged at its first meeting of 2017,

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the Federal Open Market Committee noted improved measures of consumer and business confidence of late. Presumably, improved sentiment will manifest itself in faster economic growth later this year. The market has been dialing back rate hike expectations in recent weeks. Just less than two 25-basis-point hikes are expected in 2017, down from expectations of three shortly after the Fed raised rates in December.

Trump calls out trading partners

US president Donald Trump, and members of his administration, this week chided major trading partners for manipulating their currencies. China, Japan and Germany were all named, resulting in currency market volatility. Japanese Prime Minister Shinzo Abe noted that Japan is abiding by the G20 agreement not to employ competitive devaluation, noting super-loose Bank of Japan monetary policy is meant to stave off deflation. German chancellor Angela Merkel said the European Central Bank is independent and that she does not question its policy.

Trump signs executive order for regulatory review

President Trump signed an executive order on Friday that establishes a framework for scaling back the Dodd-Frank financial reform law enacted in the wake of the global financial crisis. Also set for review is the US Department of Labor's fiduciary rule, which had been scheduled to take effect in April.

GLOBAL NEWS

Parliament moves Brexit forward

The United Kingdom's parliament voted overwhelmingly in favor of advancing a bill to begin the Brexit negotiation process. Prime Minister Theresa May has set a 31 March deadline for invoking Article 50, though there was much speculation this week centering around 9 March, as that date coincides with a European Council summit.

Eurozone grew faster than US in 2016

Based on preliminary Q4 gross domestic product figures, the Eurozone grew 1.7% in 2016, compared with 1.6% for the US. That's the first time the Eurozone has grown faster than the US since 2008. Eurozone joblessness fell to a seven-year low in 2016, while consumer prices rose 1.8% versus a year ago, reflecting rebounding oil prices.

THE WEEK AHEAD

- **China reports its foreign exchange reserves on Tuesday, February 7**
- **The Reserve Bank of Australia holds a rate-setting meeting on Tuesday, February 7**
- **China reports its trade balance on Wednesday, February 8**
- **Canada releases its January employment report on Friday, February 10**