

Stocks Gain, Dow Still Flirts with 20,000

January 9, 2017 - The S&P 500 extended gains on Friday, closing at a fresh all-time high after investors welcomed a December payrolls report that featured a 2.9% year-over-year gain in wages, the strongest 12-month increase since 2013. Meanwhile, the Dow Jones Industrial Average garnered intense intra-day press coverage, coming within 0.37 of a point of reaching the 20,000 milestone before fading in afternoon trading. The U.S. economy created 156,000 new jobs last month, shy of projections for 175,000, while the unemployment rate inched higher to 4.7% from 4.6%.

In other key economic data, the Institute for Supply Management's separate PMI readings for manufacturing and service sectors activity both expanded in December, and construction spending in residential housing ended strong in 2016. The U.S. trade deficit jumped 6.8% to \$45.2B, the largest trade gap since February, as exports dipped 0.2% and imports jumped 1.1%, led by a 7.6% surge in the price of imported oil. Factory orders fell 2.4% in November, slightly exceeding estimates for a 2.2% decline, and October orders were upwardly revised to 2.8%. The December decline follows four straight monthly increases, a trend which economists believe remains intact.

For the week, the Dow Industrials rose 1.02% during the New Year's holiday-shortened week, its strongest performance in four-weeks. The S&P 500 advanced 1.76% and the NASDAQ Composite led with a 2.58% gain. Ten of the 11 major sectors rebounded from prior week losses, with Healthcare (+2.96%), Technology (+2.49%) and Consumer Discretionary (+2.33%) taking top honors. Utilities (+0.46%) gained the least, while Telecom (-0.11%) lagged. The US Dollar Index was flat for the week, ending at 102.22, while gold futures advanced just over \$20/oz., finishing at \$1,172.85. Crude oil clawed back from a 2.6% Tuesday decline to end the week little changed. Treasuries ended the week slightly higher, with the yield on 10-year Treasury notes ending 2.5 basis points lower at 2.420%.

What We're Reading

Dow Industrials Makes Milestone Approach ↗

Former IMF Economists: No Dollar Strength Fears ↗

Oil Falls on U.S. Drilling Growth ↗

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Week's Economic Calendar

Monday, January 9: Labor Market Conditions, Consumer Credit;

Tuesday, January 10: Small Business Optimism, JOLTS, Wholesale Trade;

Wednesday, January 11: Mortgage Applications, Atlanta Fed Business Inflation;

Thursday, January 12: Jobless Claims, Import/Export Prices, Treasury Budget;

Friday, January 13: Producer Price Index, Retail Sales, Business Inventories, Consumer Sentiment.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.02%	1.02%	9.28%	1.02%	18.04%	6.72%
S&P 500	1.76%	1.76%	5.95%	1.76%	16.90%	9.93%
NASDAQ Composite	2.58%	2.58%	4.35%	2.58%	15.58%	11.64%
Russell 3000	1.73%	1.73%	6.38%	1.73%	17.81%	9.48%
MSCI EAFE	1.78%	1.78%	1.44%	1.78%	6.91%	-0.64%
MSCI Emerging Markets	2.19%	2.19%	-3.54%	2.19%	18.71%	-0.84%

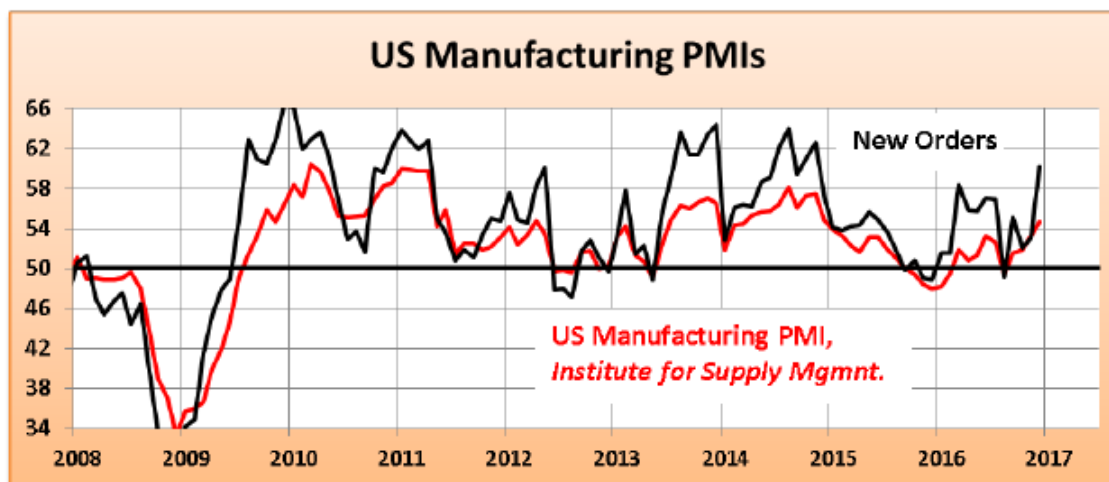
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.17%	0.17%	-2.29%	0.17%	2.35%	3.01%
Barclays Municipal	0.51%	0.51%	-2.64%	0.51%	0.01%	4.24%
Barclays US Corp High Yield	0.97%	0.97%	2.33%	0.97%	18.24%	4.88%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.16%	-0.16%	2.28%	-0.16%	14.35%	-11.14%
S&P GSCI Crude Oil	0.50%	0.50%	7.04%	0.50%	58.78%	-16.70%
S&P GSCI Gold	1.88%	1.88%	-6.35%	1.88%	7.45%	-1.77%

Source: Morningstar

Chart of the Week: U.S. ISM Manufacturing PMI at Multi-Year High

Chart 1



Source: Institute for Supply Management (ISM), Argus Research

Both the ISM and Markit Economics' manufacturing Purchasing Managers Indexes (PMI) for the U.S. continue to post steady improvement that began early in 2016. Importantly, the 2016 gains have been driven by strength in the indices respective New Orders components. As Chart 1 illustrates, the ISM U.S. manufacturing PMI jumped 1.5 points in December to 54.7, its highest reading in two years (red line). The New Orders component (black line) surged 7.2 points to 60.2, the highest since Oct. 2014. Although not displayed, the ISM's Prices Paid component jumped 11

points to a 5.5-year high. Markit Economics' U.S. Manufacturing PMI for December rose 0.2 points to 54.3, a 21-month high. Its New Orders remain close to a 2-year high.

Argus Research Chief Strategist Peter Canelo notes that the manufacturing recovery in the U.S. also has been seen in our global trading partners. The PMI lows in developed markets were seen in the first or second quarters of last year and, in some cases, their rise has been stronger than in the U.S. (based on Markit PMIs). For example, despite Brexit concerns, Markit's U.K. Manufacturing PMI has surged 7.9 points since mid-year 2016 to 56.1, and the 2.5 point jump in December puts the U.K. index well above the U.S. Markit Manufacturing PMI, currently at 54.3. Canelo also observes that the recoveries in global manufacturing are largely credited to significant declines in currency values versus the U.S. dollar.

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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.*