Fulcrum Financial Group Presents:

MONTHLY ECONOMIC UPDATE

April 2017

MONTHLY QUOTE

"Reality is something you rise above."

- Liza Minnelli

MONTHLY TIP

Do you live in a flood-prone region? Are you moving to one? A homeowner insurance policy will not cover flood damage. Consider buying a flood insurance policy, either from an insurance company or the National Flood Insurance Program (NFIP).

MONTHLY RIDDLE

Three sisters walk toward school with just one small umbrella, which they must all try to fit under. When they reach their school, none of them are the slightest bit wet. How is this possible?

Last month's riddle: The world measures them using units of temperature and time, but they have no clocks or heat. What are these two things?

Last month's answer: Latitude and longitude.

THE MONTH IN BRIEF

Stocks went sideways rather than north in March, with the S&P 500 losing just 0.04%. The Federal Reserve made another quarter-point interest rate move, and overseas, the United Kingdom initiated Brexit proceedings. While new data showed weak consumer spending, consumer optimism remained high and hiring was once again strong. A subpar month for commodities did bring major gains for two energy futures. In the housing market, existing home sales decelerated, while new home sales picked up. A little volatility did not upset the primarily bullish outlook on Wall Street.[1]

DOMESTIC ECONOMIC HEALTH

On March 15, the Federal Reserve felt confident enough in the economy to raise the benchmark interest rate to the 0.75%-1.00% range. The central bank left its 2017 dot-plot unchanged – its forecast still calls for a total of three rate hikes this year.[2]

Last month, most of the major indicators affirmed the health of the economy. The only question mark concerned household spending, and the 0.1% February gain may have just been an aberration. Consumer incomes did increase 0.4% in February, so it appeared households were pocketing more of what they had made; in fact, there was only a 0.1% February rise in retail sales. Speaking of consumer spending, the Bureau of Economic Analysis revised fourth-quarter growth up to 2.1% as the month ended; even with that upgrade to the Q4 Gross Domestic Product (GDP) number, the economy grew just 1.6% last year, a full percentage point less than in 2015.[3,4]

Americans felt very confident about the state of the economy in March. The Conference Board's index jumped up 9.5 points in a month to a remarkably high reading of 125.6. The University of Michigan's monthly index of consumer sentiment finished March at 96.9, up 0.6 points from its final February mark.[5,6]

The labor market showed further strength. Department of Labor data showed the economy adding 235,000 net new jobs in February, with the construction and education/health care sectors accounting for 120,000 of them. This sent the U-3 unemployment rate down 0.1% further to 4.7%, while the U-6 rate measuring "total" unemployment declined another 0.2% to 9.2%.[7]

In the opening week of March, the latest Institute for Supply Management gauges of manufacturing and service sector activity showed both sectors in good shape during February. At 57.6, the ISM services Purchasing Managers Index (PMI) reached its highest point since October 2015; the U.S. service sector saw its eighty-sixth straight month of expansion. The ISM factory PMI rose 1.7 points in February to 57.7.[8]

The Federal Reserve's preferred inflation gauge, the Personal Consumption Expenditures (PCE) price index, showed a 2.1% annualized gain for the year ending in February. That was a 5-year peak. Surpassing that, the headline Consumer Price Index rose 2.7% in the 12 months concluding in February, even with a mere 0.1% monthly advance. Producer prices were up 2.2% year-over-year with a February increase of 0.3%.[3,5]

GLOBAL ECONOMIC HEALTH

Just before March ended, United Kingdom Prime Minister Theresa May invoked Article 50 of the Lisbon Treaty, formally triggering the start of the Brexit process. The clock is now ticking: within two years, the U.K. will make either a "hard" or "soft" exit from the European Union, with the first round of negotiations getting underway at an E.U. summit commencing April 29. The big question is whether the

U.K. will be able to stay in the E.U.'s single market after the Brexit; it has said it might forfeit such trade access in exchange for curbing immigration from other E.U. member nations. Should it retain that trade access, U.K. citizens will still be allowed to work and live in other E.U. countries without getting visas. If negotiations somehow do not result in an exit deal by April 2019, then the terms of the Brexit could be left to the courts and/or the rules of the World Trade Organization.[9]

By World Bank projections, five Asian economies will expand by 6.5% or more this year: Laos (7.0%); Cambodia, Myanmar, and the Philippines (6.9%); and China (6.5%). China's growth is at a 26-year low in 2017, but foreign investment in the Chinese economy is forecast to rise to 15.0% this year, compared to only 4.1% in 2016. The March impeachment of South Korean President Park Geun-hye delivered another black eye to the fourth largest economy in Asia; Park and several Samsung officials were disgraced with corruption charges this winter, an especially troubling development given that the Samsung conglomerate accounts for about 15% of the South Korean economy. South Korea has already seen the collapse of Hanjin Shipping, one of the world's major cargo lines, and its government also recently bailed out its major shipbuilders.[10,11]

WORLD MARKETS

March saw many foreign benchmarks advance. At the forefront was Spain's IBEX 35. It rose 9.50% for the month. Several other indices added 3% or more in March: Argentina's MERVAL, 5.92%; France's CAC 40, 5.43%; Germany's DAX, 4.04%; Mexico's Bolsa, 3.60%; Korea's KOSPI, 3.28%; India's Sensex, 3.05%; the FTSE Eurofirst 300, 3.03%. Other March gains: Australia's All Ordinaries, 2.48%; MSCI Emerging Markets, 2.35%; Hong Kong's Hang Seng, 1.56%; Canada's TSX Composite, 0.96%; the United Kingdom's FTSE 100, 0.82%; MSCI World, 0.82%.[12,13]

There were also three notable retreats. China's Shanghai Composite declined 0.59%; Japan's Nikkei 225 lost 1.10%; and Russia's MICEX fell 1.96%.[12]

COMMODITIES MARKETS

The price of both natural gas and unleaded gasoline climbed in March: the first of those two commodities gained 15.28%, the second 12.17%. Cocoa futures added 3.87% last month; wheat futures, 0.29%. In sum, that was the good news.[14]

Unfortunately, many commodities turned south in March. Oil made a 5.83% descent on the NYMEX, settling at $50.85 as the month ended. Copper fell 2.07%; heating oil, 3.17%; platinum, 7.39%; soybeans, 7.75%; and sugar, 12.95%. Losses of less than 1% were incurred by silver (0.14%), cotton (0.21%), corn (0.48%), and coffee (0.64%). Gold closed March at $1,247.40; silver at $18.28. The U.S. Dollar Index fell 0.79% to 100.56, slipping to -1.61% YTD.[1,14]

REAL ESTATE

Reports from the National Association of Realtors brought good news and bad news. February had seen a 3.7% dip in existing home sales; on the other hand, there was a 5.5% gain for pending home sales. A Census Bureau report showed new home buying improving 6.1% in February; this was on the heels of a 5.3% gain in January.[5]

The latest (January) edition of the 20-city S&P/Case-Shiller home price index displayed a 0.2% monthly gain, which left its 12-month advance at 5.7%. Housing starts rose 3.0% in February after a 1.9% dip in January, while permits for future construction fell 6.2% after a 4.6% January boost.[5]

Home loan rates did creep a bit higher across March. In Freddie Mac's March 30 Primary Mortgage Market Survey, the 30-year fixed had an average interest rate of 4.14%, up from 4.10% on March 2. In the same period, the average interest rate on the 15-year FRM moved from 3.32% to 3.39%, while the average rate on the 5/1-year ARM increased from 3.14% to 3.18%.[15]

LOOKING BACK…LOOKING FORWARD

The Nasdaq Composite was the only one of the three major indices to post a March gain, adding a healthy 1.48%. Both the S&P 500 and Russell 2000 took tiny losses, respectively declining 0.04% and 0.05%. The Dow Jones Industrial Average fell 0.72%. The CBOE VIX pulled back 4.26%. When Wall Street closed on March 31, these indices settled as follows: S&P, 2,362.72; DJIA, 20,663.22; NASDAQ, 5,911.74; RUT, 1,385.92; VIX, 12.37. Looking further at market statistics, one notices a 28.30% 52-week gain for the Russell 2000 through the end of March. The best performer last month was the PHLX Semiconductor Sector index, which rose 4.33% to take its 52-week advance to 52.04%.[1]

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+4.56	+16.84	+11.28	+6.73
NASDAQ	+9.82	+21.39	+18.24	+14.41
S&P 500	+5.53	+14.71	+13.55	+6.63
REAL YIELD	3/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.43%	0.16%	-0.09%	2.21%

Sources: barchart.com, bigcharts.com, treasury.gov – 3/31/17[1,16,17,18]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year TIPS real yield = projected return at maturity given expected inflation.

March ended quietly, with the bulls taking a breather. Will investors find hopes or fundamentals to rally around in April? The next earnings season is two weeks ahead, and FactSet forecasts annualized earnings growth of 9.1% for S&P 500 firms – a bullish projection, indeed, that would represent the best year-over-year improvement since Q4 2011. Any nascent plans for tax reform could also stoke bullish sentiment, even though reforms could take many months to enact. While the rally waned at the end of March, it could find some fresh legs as the second quarter begins, with the markets experiencing relatively placid weather so far in 2017.[19]

UPCOMING ECONOMIC RELEASES: What major news items will Wall Street watch for in April? The March Challenger job-cut report (4/6), the Department of Labor's March employment report (4/7), the March PPI and the preliminary April consumer sentiment index from the University of Michigan (4/13), March retail sales and the March CPI (4/14), March industrial production, housing starts and building permits (4/18), a new Federal Reserve Beige Book (4/19), the Conference Board's latest leading indicators report (4/20), March existing home sales (4/21), the April Conference Board consumer confidence index and March new home sales (4/25), March hard goods orders and pending home sales (4/27), and then, the federal government's initial estimate of first-quarter growth and the final April consumer sentiment index from the University of Michigan (4/28). The March consumer spending report and PCE price index will both be released on May 1.

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Sarah

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