

## Equities Cautiously Advance

**February 27, 2017** - Equities staged a late day rally during Friday's final 30 minutes of trade, more than fully erasing earlier losses in the session. Investors remain hopeful that President Trump's first address before a joint session of Congress will provide details surrounding his tax and healthcare reform plans. Friday's reversal preserved the ongoing series of daily gains on the Dow Jones Industrial Average, closing at fresh all-time highs for the past 11 sessions, its longest streak of records since 1987. The so-called 'Trump reflation trade rally' has lost some momentum recently as Wall Street wrestles with political uncertainty in the U.S. and France. The potential for a quickened pace of interest rate tightening has also challenged investor sentiment.

In key economic data, existing home sales rebounded in January, climbing 3.3% for the fifth time in the past six months. Annualized sales in previously-owned homes reached 5.69 million, the highest sales pace since February 2007. New home sales also rebounded last month, with a 3.7% increase, following a revised 7% decline the month prior. The Chicago Fed's National Activity Index slipped into negative territory last month, (-0.05 from a revised 0.18), with just 36 of 85 monthly indicators making a positive contribution. Readings below zero indicate below-trend growth in the national economy. Meanwhile, the Kansas City Fed's regional reading of manufacturing activity rose to 14 in January from 9 in December.

For the holiday-shortened four-day week, the S&P 500 climbed by 0.73%, the Dow Industrials advanced 0.96%, and the NASDAQ Composite rose 0.13%. Nine of the 11 major U.S. sector groups finished the week higher, led by Utilities (+4.06%), Telecom (+2.35%), and Real Estate (+2.17%). Energy (-1.29%) and Financials (-0.11%) lagged last week. Gold rose for a fourth week after Treasury Secretary Steven Mnuchin said he expects low interest rates to persist, which weakened the dollar. The U.S. Dollar Index edged 0.14% higher to end the week at 101.09. Silver futures extended gains into a ninth consecutive week, while natural gas weakened for a fourth week as warmer weather prevailed across much of the nation. Treasuries edged higher, causing the yield on 10-year Treasury notes to contract by 10.3 basis points to 2.313%.

### What We're Reading

[High Stakes Congressional Speech ↗](#)

[Rising U.S. Production Clouds Oil Outlook ↗](#)

[Key Global Data Last Week ↗](#)

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### Week's Economic Calendar

**Monday, February 27:** Durable Goods Orders, Pending Home Sales, Dallas Fed Mfg.;

**Tuesday, February 28:** 4Q16 GDP Revision, U.S. Trade Gap, Case-Shiller Home Prices, Chicago PMI, Consumer Confidence;

**Wednesday, March 1:** Mortgage Applications, Personal Income & Outlays, PMI Mfg., ISM Mfg., Construction spending, Fed Beige Book;

**Thursday, March 2:** Jobless Claims, Chain Store Sales;

**Friday, March 3:** PMI Services, ISM Non-Manufacturing Index.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.96%	4.82%	9.11%	5.36%	26.25%	8.71%
S&P 500	0.73%	4.12%	7.96%	6.09%	25.31%	10.93%
NASDAQ Composite	0.13%	4.25%	8.94%	8.78%	30.19%	12.17%
Russell 3000	0.58%	3.91%	7.57%	5.86%	26.95%	10.24%
MSCI EAFE	-0.14%	1.27%	8.08%	4.21%	17.55%	-0.58%
MSCI Emerging Markets	0.51%	3.84%	11.17%	9.52%	31.06%	1.89%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.62%	0.86%	1.32%	1.06%	1.67%	2.88%
Barclays Municipal	0.56%	0.62%	1.71%	1.28%	0.08%	3.71%
Barclays US Corp High Yield	0.52%	1.26%	4.92%	2.73%	23.84%	4.845

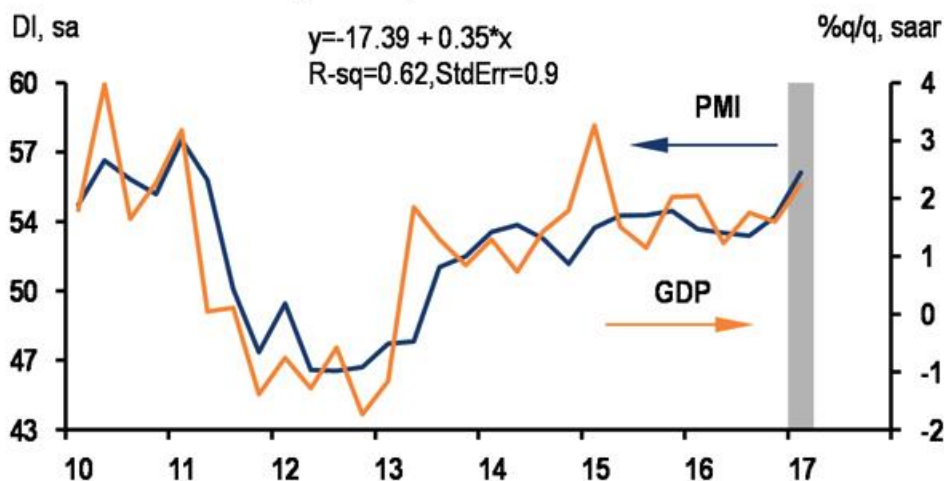
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.70%	-0.09%	2.63%	0.05%	15.84%	-13.08%
S&P GSCI Crude Oil	0.39%	2.23%	12.57%	0.50%	67.75%	-19.32%
S&P GSCI Gold	1.55%	3.87%	5.53%	9.26%	1.55%	-2.03%

Source: Morningstar

## Chart of the Week: Prospects Brighten for EU Growth

Chart 1:

### Euro area all-industry activity PMI and GDP



Source: J.P. Morgan

Sources: J.P. Morgan, IHS Markit, Commerce Department

As shown in Chart 1 above, the Eurozone's preliminary February all-industry composite activity Purchasing Managers Index (PMI) from IHS Markit jumped to a near six-year (70 month) high

of 56.0, suggesting the pace of the growth across the European Union improved markedly. Indeed, the increase was broad-based across countries and components. According to J.P. Morgan, the PMI reading would be consistent with about 2.5% annualized GDP growth. The firm is cautious about placing significant weight on one month's reading, but the increase was large enough (and supported by national surveys) to prompt an upward revision to their first-half 2017 growth outlook. Their revised forecast has growth at 2.25% in the first quarter and 2% expected for the second quarter.

Furthermore, average GDP growth in the euro-region of 1.8% has delivered a 0.8% average annual decline in the unemployment rate in recent years. Absent a revival of productivity growth, the unemployment rate could fall even faster in 2017. This would pressure the European Central Bank (ECB), given that the unemployment rate of 9.6% is not far from the ECB's 8.5% full employment target estimate. These macro considerations have driven J.P. Morgan to forecast an ECB tapering in their bond-buying program at the start of next year (2018) and a rate hike in second-half of 2018.

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## Glossary

The **Bloomberg Barclays US Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. 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. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly

The **Bloomberg Commodity Index** is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index; and no group can represent more than 33% of the index. However, between rebalancings, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production.

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.

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** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

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 **Nikkei 225 Stock Average** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The constituents are changed at the beginning of October every year based on an annual review by Nikkei, Inc. The Nikkei average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 22.5



The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

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 **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

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 Crude Oil Index** is a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark for investment performance in the crude oil market.

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 futures 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

**West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008





