S&P 500 Rises Fractionally for Week

February 6, 2017 - U.S. stocks finished solidly higher Friday, with a rally in financials pushing most domestic equity indices to a small weekly gain. Investor optimism was renewed after President Trump signed executive orders to delay the April implementation of the DOL fiduciary rule and conduct a review of the 2010 Dodd-Frank regulations. Equity appetites were also sparked by a strong January payrolls report showing the economy added the most new workers in four months. Meanwhile, corporate earnings continue to pour in, with roughly half of the companies within the S&P 500 posting results. So far, earnings within the large cap benchmark have exceeded analysts' consensus forecasts by an average of 5.6%, with only four of the 11 sectors posting a slowdown in earnings. The S&P 500 finished Friday within one point of a new all-time high, while the Dow Industrials closed back above the 20,000 milestone and the NASDAQ Composite ended at a fresh record high.

In key economic data last week, a total of 227,000 new jobs were added last month, topping projections, and that was net of downward revisions for the prior two months that subtracted 39,000 jobs. Construction saw the largest jobs growth (+36,000), the largest gain since March. Average hourly wages rose 2.5% on an annualized basis, the weakest year-over-year increase since August, while climbing 0.1% during the month. Separate data showed the unemployment rate ticked higher from 4.7% to 4.8% and the labor force participation rate rose to a four-month high at 62.9%. Earlier in the week, the Federal Reserve voted unanimously to leave interest rates and policy unchanged, with the Fed Funds lending rate remaining at 0.5%-0.75%.

The S&P 500 rose 0.16% last week, while the Dow Industrials trailed with a 0.11% decline. The NASDAQ Composite also climbed fractionally, ending the week with a 0.13% gain. By market cap, smaller-sized companies performed best, with the Russell 2000 Index rising 0.54% for its forth gain in the past five weeks. On a sector basis, six of the 11 major sectors advanced last week, led by Healthcare (+2.51%), Consumer Staples (+1.16%), and Utilities (+1.05%). Telecom (-1.9%), Materials (-1.46%), and Industrials (-1.32%) fell the most. The US Dollar Index fell by 0.66% to end at 99.868, while gold futures rebounded by almost $29/oz. (+2.43%) to finish at $1,220.20. Treasury prices edged higher, with the yield on 10-year T-Notes falling 1.9 basis points to 2.466%.

What We're Reading

Le Pen Runs for French Presidency ↗

Iran Runs New Missile-Based Military Exercises ↗

Oil Prices Dampen on North American Output↗

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Week's Economic Calendar

Monday, February 6: Labor Market Conditions;

Tuesday, February 7: NFIB Small Business Optimism, Trade Deficit, Consumer Credit;

Wednesday, February 8: MBA Mortgage Applications;

Thursday, February 9: Jobless Claims, Wholesale Trade;

Friday, February 10: Import & Export Prices, Consumer Sentiment.

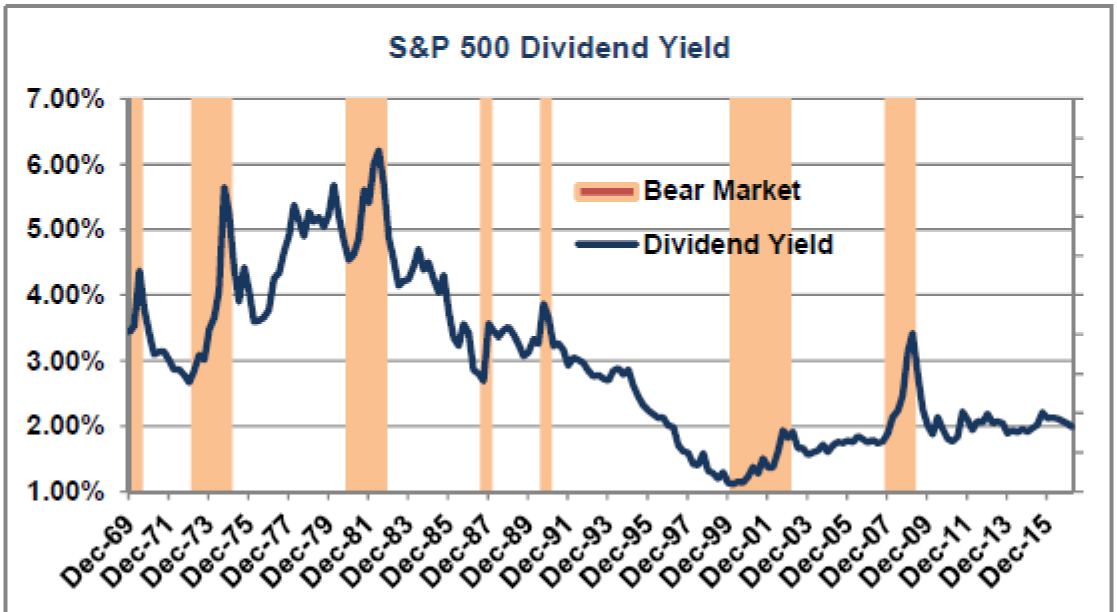
Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-0.11%	1.04%	11.94%	1.56%	22.81%	9.29%
S&P 500	0.16%	0.85%	10.57%	2.76%	22.72%	12.02%
NASDAQ Composite	0.13%	0.94%	12.31%	5.33%	27.32%	13.70%
Russell 3000	0.24%	0.90%	11.57%	2.80%	24.61%	11.52%
MSCI EAFE	0.03%	0.56%	5.71%	3.48%	14.11%	1.22%
MSCI Emerging Markets	0.33%	1.07%	4.22%	6.60%	30.29%	2.15%
Bonds						
Barclays Agg Bond	-0.04%	-0.17%	-2.25%	0.02%	1.15%	2.41%
Barclays Municipal	0.23%	0.04%	-2.03%	0.70%	-0.45%	3.69%
Barclays US Corp High Yield	0.33%	0.40%	4.01%	1.86%	22.32%	5.06%
Commodities						
Bloomberg Commodity	-0.03%	0.40%	5.32%	0.54%	15.68%	-11.25%
S&P GSCI Crude Oil	1.24%	1.93%	20.53%	0.20%	66.58%	-17.66%
S&P GSCI Gold	2.49%	0.78%	-6.33%	6.00%	6.95%	-1.05%

Source: Morningstar

Chart of the Week: The S&P Dividend Yield Has Shrunk

Chart 1



Source: S&P DJ Indices. Past performance is no guarantee of future results. 12/12/69-2/3/17.

As Chart 1 illustrates, the S&P 500 dividend yield has shrunk from a recent high of 2.4% to just under 2% today. Not too long ago, the S&P 500 dividend fell from a 3.9% high in the 3Q 1990 (during the 3-month bear market & recession triggered by Saddam Hussein's invaison of Kuwait) to a low of 1.12% 10-years later as the tech bubble burst and we subsequently entered a prolonged bear market. Today, the S&P 500 is up 2.6% since the start of 2017, and is higher by over 12% since the November presidential election. Is this decline a cautionary signal to be worried about?

CFRA Strategist Sam Stovall says that while the dividend yield is lower relative to other periods, it yielded an average of nearly 3% since December 1969, it is still attractive relative to its competition: the yield on the 10-year note. Since 1953, whenever the dividend yield on the S&P 500 exceeded the 10-year yield, the market gained an average 18% in the coming 12 months, rising in price 83% of the time.

Even when the 10-year yield exceeded the S&P 500 dividend – but by less than one percentage point – stocks still fared well, rising an average 11% and posting price advances 79% of the time. Even though stocks will eventually slip in price, it won't likely be due to a shrinking yield, so long as it remains competitive with the 10-year note.

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Glossary

*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.*

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*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.*