

## Financials Drag Stocks Lower

**January 23, 2017** - U.S. stocks closed higher on Friday, retracing most intra-day gyrations associated with Donald Trump’s presidential Inauguration Day speech, which many investors noted as overly protectionist. Yet Trump’s first speech as president also included a renewed pledge to build new roads and bridges. The fourth quarter earnings season is underway, with early profit reports topping analysts’ forecasts, getting large caps off to a strong start, while sales beats have been weaker. While still very much preliminary, fourth quarter earnings “beat rates” are at the high end of their historical range, but sales beats are down from last quarter and below their long-term average. Financial shares, the top performing sector from election day to year-end, climbed on Friday, but retreated 1.6% for the week. A two-week rally in small cap shares ended as the Russell 2000 Index fell 1.5% over the four-day holiday-shortened week.

In key economic data, the Consumer Price Index rose for a fifth straight month, up 0.3% in December, and capped 2016 with a 2.1% year-over-year increase, the biggest 12-month increase since June 2014. The National Association of Homebuilder’s confidence index slipped two points in January to 67, but still far above the 50 dividing line between positive and negative sentiment. NAHB economist Robert Dietz is optimistic, forecasting a solid 10% growth in single-family construction this year. Home construction starts jumped 11.3% in December, capping 2016 with an overall increase of 4.9% to 1.23 million units, its seventh straight yearly gain. Lastly, the Philadelphia Fed’s Business Outlook Index rose to 23.6 for January, from a revised 19.7 level in December.

For the week, the Dow Industrials fell 0.29%, the S&P 500 dipped 0.13%, while the NASDAQ Composite lost 0.33%. Surprisingly, eight of the 11 major sectors posted gains last week, led by Consumer Staples (+2.08%), Telecom (0.79%), and Real Estate (+0.7%). Financials (-1.64%), Healthcare (-1.48), and Consumer Discretionary (-0.04%) retreated. The US Dollar Index weakened by just 0.43% over the week, ending at 100.74, while gold futures climbed for a third week, up 1% and finishing at \$1,210.57. Crude oil was virtually unchanged last week, ending at \$53.22/barrel. Treasuries declined during the week, with the yield on 10-year Treasury notes increasing 7.1 basis points to 2.468%.

### What We’re Reading

[Huge Cuts in Regulations Coming? ↗](#)

[French Candidates Propose Money for Nothing ↗](#)

[China and India Slow Down Oil Stockpiling ↗](#)

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### Week’s Economic Calendar

**Monday, January 23:** Dallas Fed Manufacturing Survey;

**Tuesday, January 24:** PMI Mfg Index, Existing Home Sales, Richmond Fed Mfg Index;

**Wednesday, January 25:** MBA Mortgage Applications;

**Thursday, January 26:** Int’l Trade in Goods, Jobless Claims, Chicago Fed Natl Activity, PMI Services, New Home Sales, Leading Indicators, Kansas City Fed Mfg Index;

**Friday, January 27:** Durable Goods Orders, 4Q GDP Estimate, Consumer Sentiment.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-0.29%	0.33%	9.17%	0.33%	25.69%	6.40%
S&P 500	-0.13%	1.54%	6.64%	1.54%	24.80%	9.59%
NASDAQ Composite	-0.33%	3.22%	6.30%	3.22%	25.75%	11.12%
Russell 3000	-0.26%	1.46%	7.15%	1.46%	26.34%	9.05%
MSCI EAFE	-0.47%	2.13%	2.67%	2.13%	16.58%	-0.96%
MSCI Emerging Markets	-0.30%	3.61%	-1.82%	3.61%	31.96%	-0.34%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.34%	0.03%	-2.60%	0.03%	1.58%	2.74%
Barclays Municipal	-0.58%	0.59%	-2.08%	0.59%	-0.29%	3.83%
Barclays US Corp High Yield	-0.06%	1.10%	1.75%	1.10%	23.49%	4.68%

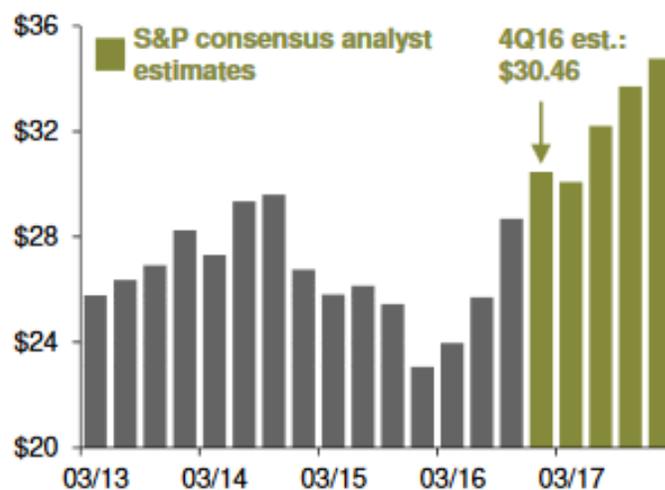
  

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.18%	1.02%	2.86%	1.02%	21.64%	-10.82%
S&P GSCI Crude Oil	0.13%	-0.93%	5.12%	-0.93%	87.48%	-17.44%
S&P GSCI Gold	0.72%	4.86%	-4.72%	4.86%	9.17%	-1.20%

Source: Morningstar

## Chart of the Week: Analysts Optimistic About Future Earnings Seasons

Chart 1: S&P 500 Index Operating Earning per Share, quarterly



Source: JP Morgan

S&P forecasts 4Q earnings growth of 32%, a rate not seen since late-2010 when earnings were rebounding in the wake of the financial crisis. JP Morgan says that the anticipated success of 4Q earnings and the realized success of third quarter's earnings stem from similar drivers: stable commodity prices, rising rates, and fading dollar strength. For financials, low rates and increased regulatory burden have put pressure on both revenues (downward) and costs (upward) in recent

years. However, Fed commentary suggests rates are headed higher, and the prospect of regulatory and tax reform under the new administration has assuaged investor concerns and ballooned earnings expectations. For energy, the supply/demand imbalance that led to a decline in oil prices is gradually correcting itself, and the OPEC agreement to cut production has led prices to rebound. That said, while the tide appears to be turning, investors should take these forecasts with a grain of salt. Analysts are often too optimistic, and a tight labor market should put upward pressure on wages. Without a corresponding increase in revenues, higher wages could lead to margin compression and earnings weakness, a development that investors should remain cognizant of looking forward.

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*This report is created by Tower Square Investment Management LLC*

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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.

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.*