

## Stocks Extend Record Highs

**February 21, 2017** - Stocks rose to new record highs last Friday, capping the benchmark S&P 500's fourth weekly advance, the longest stretch of gains since July. Investor sentiment got a boost following a pledge from President Trump that his tax reform plan will be released in a matter of weeks. Meanwhile, in Congressional testimony, Federal Reserve Chair Janet Yellen said that "waiting too long to remove (rate) accommodation would be unwise," adding that further rate hikes are likely needed if economic recovery remains on track. Financials led the advance during the week, while all but nine of the 60 companies in the healthcare sector posted gains. The Stoxx Europe 600 Index registered a third straight weekly gain, rising 0.9%; while the MSCI Emerging Markets Index advanced just shy of 1% last week.

Key inflation data last week provided evidence supporting Fed Chair Janet Yellen's inclination to raise interest rates sooner than Wall Street was generally expecting. The Consumer Price Index rose 0.6% in January, its largest increase since February 2013, while the CPI rose 2.5% on an annualized basis, the most since March 2012 and above the Fed's 2% target. In other key economic data, the Philadelphia Fed's manufacturing activity index leapt to 43.3 from 23.6 last month, reaching its highest level since January 1984 and widely topping its six-month average of 19.7. Lastly, home construction starts declined 2.6% in January, led by a sharp 41.3% slump in western states, while revisions raised the overall YoY increase to 10.5%.

The S&P 500 rose 1.6% last week, the Dow Industrials advanced 1.75%, and the NASDAQ Composite returned 1.88%. The Russell 2000 Index, a gauge of smaller-sized company performance, rose 0.82% during the week, ending within five points of its 1,404 all-time high set last Wednesday. On a sector basis, 10 of the 11 major sectors advanced last week, led by Financials (+2.98%), Healthcare (+2.59%), and Technology (+1.89%). Energy (-1.81%) lagged as oil futures ended lower for its first weekly decline in five weeks. Treasuries edged lower, lifting the yield on 10-year Treasury notes by eight basis points to 2.416%.

### What We're Reading

[Yellen Explains the Record Setting Rally ↗](#)

[Le Pen Gains in French Polls ↗](#)

[OPEC Aims for Deeper Output Cuts ↗](#)

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### Week's Economic Calendar

**Monday, February 20:** Presidents Day, U.S. markets closed; no economic data.

**Tuesday, February 21:** Markit Flash PMI Mfg.;

**Wednesday, February 22:** Mortgage Applications, Existing Home Sales, FOMC Minutes;

**Thursday, February 23:** Jobless Claims, Chicago Fed Natl Activity, Markit Flash PMI Services;

**Friday, February 24:** New Home Sales, Consumer Sentiment

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.75%	3.83%	9.10%	4.36%	25.29%	8.48%
S&P 500	1.60%	3.36%	8.07%	5.32%	24.63%	10.86%
NASDAQ Composite	1.88%	4.12%	9.77%	8.64%	30.29%	12.57%
Russell 3000	1.48%	3.30%	8.04%	5.25%	26.63%	10.33%
MSCI EAFE	0.86%	1.41%	7.76%	4.35%	15.81%	-0.07%
MSCI Emerging Markets	0.97%	3.32%	11.25%	8.97%	30.60%	1.53%
Bonds						
Barclays Agg Bond	-0.02%	0.24%	0.22%	0.44%	1.50%	2.69%
Barclays Municipal	-0.21%	0.06%	0.47%	0.72%	-0.59%	3.63%
Barclays US Corp High Yield	0.20%	0.74%	4.77%	2.20%	23.74%	4.90%
Commodities						
Bloomberg Commodity	-1.39%	0.62%	6.65%	0.75%	16.28%	-12.16%
S&P GSCI Crude Oil	-0.84%	1.84%	16.96%	0.11%	62.91%	-18.71%
S&P GSCI Gold	0.26%	2.29%	1.60%	7.59%	2.28%	-2.05%

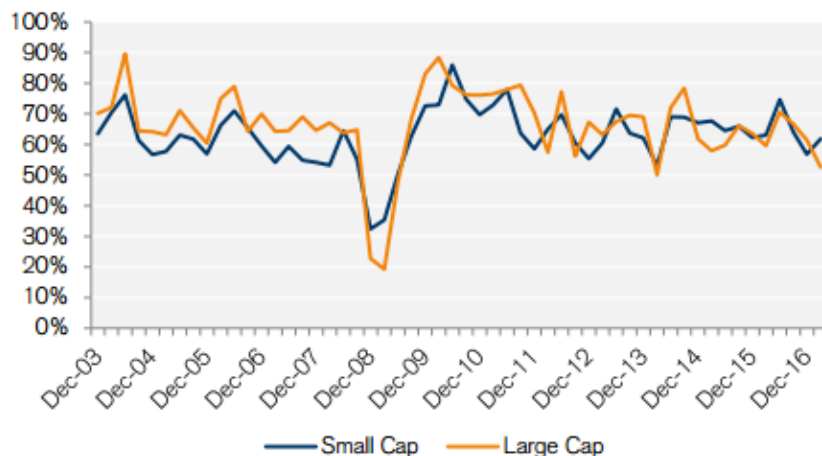
Source: Morningstar

## Chart of the Week: Fourth Quarter Earnings & Guidance Update

### Figure 1: Small & Large Cap Guidance Trends

#### Small & Large Cap: % Corporate Guidance Raised

Russell 2000, S&P 500 Based on # of Announcements



Source: CS US Equity Strategy, S&P Capital IQ/ClariFi, as of 2/15/2017

With around 78% of S&P 500 companies reporting fourth quarter results to date, 75% have beaten analysts' consensus EPS expectations and 51% have topped their sales expectations. Forward earnings guidance trends, however, remain weak for large caps and better for small caps. Overall, large cap consensus earnings growth expectations for the fourth quarter have moved higher, but first quarter 2017 and full-year guidance have edged lower. For mid and small cap stocks, 74% and 64% have respectively beaten consensus profit forecasts, while 56% of midcaps and 57% of small caps have exceeded their sales expectations.

According to Credit Suisse, shown in the Figure 1, forward earnings guidance trends have weakened for large caps over the past few weeks (orange line) and continue to look weak relative to history. Of those that have changed previously announced guidance, just 53% of large caps have raised guidance (vs. 58% as the prior week). This is down from the third quarter 2016 when 61% had raised guidance, and below its long term average of 65%. Comparatively, fourth quarter trends have brightened for small caps (the blue line). Of those that have changed previously announced guidance, 62% of small caps have raised guidance. This is up slightly from last quarter, when 57% had raised guidance and in-line with its long term average.

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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 USDY 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





