Weekly
VANTAGE POINT

Oct 2-6, 2017 Recap

NASDAQ Composite Extends Record Run

October 9, 2017 – U.S. stocks ended mostly lower on Friday, slightly paring strong weekly gains as investors largely shook off disappointment over a weak September payrolls report that was distorted by the effects of the two major hurricanes at the beginning of the month. Non-farm payrolls fell by 33,000 last month, their first monthly contraction in seven years, widely missing forecasts for an 80,000 increase. Wall Street instead focused on a stronger-than-expected rise in average hourly earnings, up 0.5%, topping projections for a 0.3% rise. Also positive, the unemployment rate fell from 4.4% to 4.2%, while the labor force participation rate expanded to 63.1 from 62.9 in August. The S&P 500 and the Dow Industrials snapped their multi-session winning streaks, while the NASDAQ Composite ended the week at another record high, its 55th of this year.

In key economic data, the Institute for Supply Management's manufacturing PMI for September jumped to 60.8 for September, its highest level in 13years, while their non-manufacturing (service sectors) activity index expanded as the fastest pace in 12years, reaching 59.8. U.S. construction spending expanded by 0.5% in August and the U.S. trade deficit narrowed in August to -$42.4B as imports and exports fell by 0.1% and 0.4% respectively. Factory orders rose 1.2% in August, rebounding from a 3.3% decline in July, while the final August reading of overall durable goods orders registered an increase of 2% from 1.7% the month prior.

For the week, the S&P 500 rose 1.25%, the Dow Industrials advanced 1.65% and the NASDAQ Composite gained 1.48%. Small cap stocks also performed well, gaining for a third straight week, as the Russell 2000 Index rose 1.32%. Within the S&P 500, 9 of its 11 major sector groups posted gains last week, led by Financials (+1.98%), Materials (+1.98%) and Consumer Discretionary (+1.85%). Energy (-0.58%) and Consumer Staples (-0.26%) lagged. U.S. crude oil prices retreated 4.61% last week to $49.29/barrel, while gold futures slipped just 0.27% to $1276.60/oz. The U.S. Dollar Index strengthened by 0.78% last week, ending at 93.800. Treasury prices declined, sending the yield on 10-year Treasury notes up 2.6 basis points last week to 2.360%.

What We're Reading

Third Quarter Earnings Season Looms ↗

German Output Surged in August ↗

Republicans Worry About Middle-Class Taxes ↗

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Week's Economic Calendar

Monday, Oct 9: Columbus Day (equity markets open, bond market closed);

Tuesday, Oct 10: Small Business Optimism;

Wednesday, Oct 11: JOLTS, FOMC Minutes;

Thursday, Oct 12: Weekly Jobless Claims, Producer Prices;

Friday, Oct 13: Consumer Prices, Retail Sales, Business Inventories, Consumer Sentiment.

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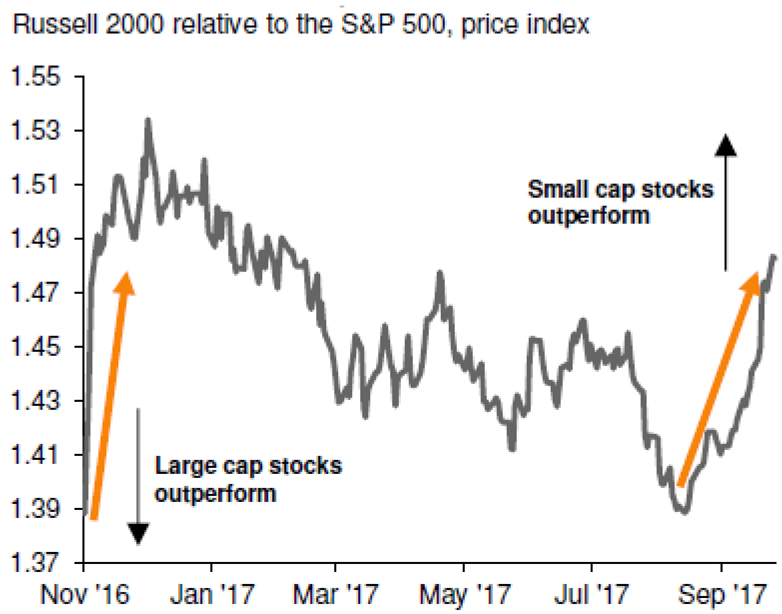
Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.65%	1.65%	6.82%	15.24%	24.68%	10.25%
S&P 500	1.25%	1.25%	6.32%	15.67%	20.45%	11.40%
NASDAQ Composite	1.48%	1.48%	8.51%	23.47%	25.62%	15.29%
Russell 3000	1.27%	1.27%	6.56%	15.36%	20.65%	11.35%
MSCI EAFE	-0.06%	-0.06%	5.36%	19.89%	19.51%	5.75%
MSCI Emerging Markets	1.99%	1.99%	10.33%	30.33%	23.03%	5.41%
Bonds						
Barclays Agg Bond	-0.15%	-0.15%	0.96%	2.98%	0.45%	2.48%
Barclays Municipal	0.02%	0.02%	1.21%	4.69%	1.40%	3.11%
Barclays US Corp High Yld	0.16%	0.16%	2.18%	7.17%	8.62%	5.59%
Commodities						
Bloomberg Commodity	-0.61%	-0.61%	2.10%	-3.46%	-1.10%	-10.82%
S&P GSCI Crude Oil	-4.47%	-4.47%	8.44%	-8.11%	-2.14%	-18.24%
S&P GSCI Gold	-0.77%	-0.77%	4.22%	10.70%	1.75%	1.83%

Chart of the Week:. Renewed Optimism for Corporate Tax Reform

Chart 1



Source: FactSet, Russell, Standard & Poor's, J.P. Morgan Asset Management.

U.S. equity markets have traded higher since the 2016 presidential election amid several positive fundamental forces, including healthy economic data and robust earnings. Immediately after the election, however, another force drove equity markets higher — the prospect of corporate tax reform. While reform-related enthusiasm retreated in the wake of Washington gridlock, it has recently resurfaced, and is impacting returns in a similar way. As Chart 1 illustrates, small cap U.S.

equities outperformed large cap U.S. equities both immediately after the election and in recent weeks, thanks largely to the fact that small cap companies tend to have a higher effective tax rate than their large cap peers, and thus stand to benefit more from corporate tax reform. According to the firm S&P Dow Jones, companies in the S&P 500 paid out 25.6% of 2016 calendar-year revenues in taxes, well below the 35% stated marginal tax rate.

But until tax reform becomes reality, investors should remember that the U.S. equity market may still perform on fundamentals alone. J.P. Morgan offers as evidence on this point that the S&P 500 returned 14.24% through the first three quarters on a total return basis. And with real second quarter 2017 GDP growth at an annualized rate of 3.1% – the fastest pace since the first quarter of 2015 – and continued corporate earnings growth projected by Standard & Poor's, equities may continue to climb higher going forward, even without corporate tax reform.

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Tower Square Investment Management LLC
200 N. Sepulveda Blvd., Suite 200, El Segundo, CA 90245

Glossary

*The **Barclays U.S. Treasury: U.S. TIPS Index** includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.*

*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 U.S. Corporate (Investment Grade) Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-US private-sector industrial, utility and financial issuers. Certificates of deposit are also included. Launched in July 1973, securities included must be rated investment grade (Baa3/BBB-/BBB- or higher). Eligible senior and subordinated corporate securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 10.75 years. The index 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 pre-refunded bonds. Many of the subindicies of the Municipal Index have historical data to January 1980. In addition, several subindicies 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 U.S. Treasury Floating Rate Bond Index** is a rules-based, market value-weighted index engineered to measure the performance of floating rate U.S. Treasury bonds. The index inception date is January 31, 2014—the first month-end following the U.S. Treasury's issuance of a floating rate bond. Historical performance and characteristics are available from January 31, 2014, when floating rate notes were offered and first traded, the first new Treasury security since the introduction of Treasury-Inflation-Protected Securities (TIPS) in 1997.*

*The **Bloomberg Barclays US Convertible Bond > $500MM Index** is designed to represent the market of US convertible securities, such as convertible bonds, with outstanding issue sizes greater than $500 million.*

*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. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

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 **MSCI ACWI Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The SMCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy , Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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 **NASDAQ-100 Index** includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization.

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.

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