

## Bullishness Shifts Into Higher Gear

**February 13, 2017** - U.S. stocks advanced for a third straight week, with all three major domestic equity indices finishing the week at all-time highs. Investors' bullish appetites were sparked after President Trump announced that he will be releasing details on a "phenomenal" tax plan in the coming weeks. Wall Street is hopeful the announcement marks a shift away from trade protectionism and security towards action on his pledged pro-growth policies. Officials at Investor Intelligence reported Wednesday that its survey index of bullish U.S. equity newsletter writers was at 62.7%, its highest level since December 2004. Raw materials producers saw the strongest gains last week as the U.S. Dollar Index advanced for an eighth day, while energy producers followed closely after comments from Goldman Sachs energy analysts saying OPEC will succeed in winding down a global oil supply glut. That news helped lift oil futures to nearly \$54 per barrel.

In key economic data last week, the four-week average of new claims for unemployment benefits declined from 248,000 to 244,250, the lowest level since November 1973, while mortgage application activity rebounded 2.3% after falling 3.2% the week prior. Meanwhile, inventories at wholesalers are at the smallest levels in two years after the strongest surge in sales since March 2011. Wholesale revenues rose 2.6% in December, following a revised 0.5% gain in November. The increase in oil prices boosted overall import prices 0.4% last month, while export prices crept 0.1% higher. On a year-over-year basis, import and export prices have climbed by 3.7% and 2.3%, respectively. Lastly, the University of Michigan's preliminary February reading of consumer confidence fell from a 13-year high.

The S&P 500 rose 0.87% last week, the Dow Industrials advanced just shy of 1%, and the NASDAQ Composite performed best, gaining 1.24%. The Russell 2000 Index, a gauge of smaller-sized company performance, also ended the week at an all-time high, gaining 0.82% last week. On a sector basis, 10 of the 11 major sectors advanced last week, led by Materials (+0.91%), Energy (+0.77%), and Industrials (+0.75%). Healthcare (+0.12%) rose the least, while Consumer Staples (-0.06%) lagged. Treasuries advanced, with the yield on 10-year T-Notes falling 5.8 basis points to 2.408%.

### What We're Reading

**Foreign Investors Sell U.S. Treasuries** ↗

**U.S. Dollar Reaches Three-Week High** ↗

**How The Treasury Department Is Shaping Up** ↗

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### Week's Economic Calendar

**Monday, February 13:** No major releases;

**Tuesday, February 14:** Small Business Optimism, Producer Prices;

**Wednesday, February 15:** Consumer Prices, Retail Sales, Empire State Mfg., Industrial Production, Business Inventories, Housing Market Index;

**Thursday, February 16:** Jobless Claims, Housing Starts, Philly Fed Business Survey;

**Friday, February 10:** eCommerce Retail Sales, Leading Indicators.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.99%	2.04%	7.77%	2.56%	27.30%	8.65%
S&P 500	0.87%	1.73%	7.41%	3.66%	27.72%	11.09%
NASDAQ Composite	1.24%	2.19%	10.41%	6.63%	35.44%	12.73%
Russell 3000	0.88%	1.79%	8.03%	3.71%	30.11%	10.63%
MSCI EAFE	-0.02%	0.55%	6.06%	3.46%	18.46%	0.45%
MSCI Emerging Markets	1.24%	2.32%	6.62%	7.925	30.28%	2.24%
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.44%	0.27%	-0.46%	0.46%	0.98%	2.63%
Barclays Municipal	0.24%	0.28%	-0.89%	0.94%	-0.53%	3.72%
Barclays US Corp High Yield	0.13%	0.54%	4.35%	2.00%	24.49%	4.97%
Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.62%	2.03%	6.72%	2.17%	21.28%	-11.13%
S&P GSCI Crude Oil	0.75%	2.70%	19.94%	0.96%	85.39%	-18.39%
S&P GSCI Gold	1.24%	2.02%	-2.61%	7.31%	3.45%	-1.02%

Source: Morningstar

## Chart of the Week: Wage Growth Is Underwhelming

Chart 1

### Despite plans, actual wage growth is lacking

% net index level (LHS); % change y/y in ECI (RHS)



Source: National Federation of Independent Business, J.P. Morgan

It appears that the earnings recession for S&P 500 companies is now behind us, with negative effects from low energy prices abating. However, Wall Street is facing a new set of challenges, most notably of which is lower-than-expected wage growth. Wage growth is not inherently a threat to corporate profits if sales can grow to compensate. Contrarily, in the absence of rising revenues, the increase in consumer incomes can erode corporate profitability, all else held equal. As jobless claims fall and unemployment hovers below 5%, it seems that a rise in wages is all but certain. But is this really the case?

As shown in Chart 1, actual wage growth has lagged substantially behind planned wage growth, as measured by the National Federation of Independent Business (NFIB), for several years running. This indicates that while corporations have felt comfortable enough in the current economic landscape to raise wages in theory, these increases have yet to fully materialize. In the absence of weak economic data, there may be something else causing this discrepancy. According to J.P. Morgan, several structural issues may be contributing to weak wage growth, including the retirement of baby boomers, continued declines in union membership and a growing number of citizens excluded from the job market for various reasons. All in all, investors should be mindful that there is more to the wage growth puzzle than first meets the eye.

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

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## Glossary

The **Bloomberg Barclays US 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 **Bloomberg Barclays US 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 **Bloomberg Barclays US 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 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 **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.

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 USD<sub>X</sub> 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.

**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