

A Record Setting Week

January 30, 2017 - U.S. stocks finished little changed near all-time highs on Friday, as Wall Street bemoaned a slower pace of economic growth during the final quarter of 2016. The gross domestic product (GDP) growth rose at a 1.9% annualized pace during the fourth quarter, far lower than the prior quarter's 3.5% gain and missing economists' projections for 2.2% growth. The weakness was primarily caused by the largest trade drag on growth since the second quarter of 2010, as net exports slumped. For all of 2016, GDP increased by 1.6%, compared with an increase of 2.6% in 2015. Despite the weaker growth report, all three major U.S. equity indices ended the week higher.

Other key economic data last week revealed a surprising 2.8% drop in December existing home sales, despite mild weather in November and early December. The Richmond Fed's manufacturing activity index rose to a 10-month high of 12.0 in January from 8.0 in December and just 4.0 in November, as producer sentiment accelerated with the ongoing factory sector rebound. Durable goods orders fell 0.4% in December, following a revised 4.8% November decline (-4.5% originally reported). On a brighter note, the University of Michigan's final January reading of consumer sentiment rose to a 13-year high.

The Dow Industrials and S&P 500 posted their first positive week in three weeks, as the Dow Industrials climbed 1.34%, the S&P 500 added 1.04% and the NASDAQ Composite jumped 1.9%. All three indexes hit new all-time highs during the week, with the Dow Industrials reaching and closing above the notable 20,000 milestone. On a sector basis, gains were driven by Materials (+3.44%), Technology (+2.31%), and Financials (+2.16%). Telecom (-1.74%) and Real Estate (-0.94%) lagging the most. The U.S. Dollar Index weakened by just 0.21% over the week, ending at 100.53, while gold futures fell 1.59% ending at \$1,191.30. Treasury prices fell for the week, but closed Friday in positive territory near its highest levels of the day, with the yield on 10-year T-Notes rising 1.7 basis points to 2.485%.

What We're Reading

[New All-Time Highs Reached ↗](#)

[U.S. Drilling Revives Glut Concerns ↗](#)

[Trump Orders Reduced Regulations ↗](#)

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Week's Economic Calendar

Monday, January 30: Personal Income & Outlays, Pending Home Sales;

Tuesday, January 31: Home Price Index, Chicago PMI, Consumer Confidence, FOMC meeting starts;

Wednesday, February 1: Private Payrolls, PMI Mfg., ISM Mfg., Construction Spending, FOMC Decision;

Thursday, February 2: Chain Store Sales Jobless Claims, Worker Productivity/Costs;

Friday, February 3: Non-farm Payrolls, PMI Services, Factory Orders, ISM Non-Mfg.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	1.34%	1.68%	10.59%	1.68%	25.96%	8.25%
S&P 500	1.04%	2.60%	8.16%	2.60%	24.50%	11.13%
NASDAQ Composite	1.91%	5.19%	8.86%	5.19%	28.23%	12.85%
Russell 3000	1.08%	2.55%	9.01%	2.55%	26.15%	10.61%
MSCI EAFE	1.29%	3.45%	4.77%	3.45%	13.04%	0.52%
MSCI Emerging Markets	2.54%	6.25%	1.56%	6.25%	30.92%	1.88%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.04%	0.06%	-2.10%	0.06%	1.66%	2.69%
Barclays Municipal	-0.11%	0.47%	-2.00%	0.47%	-0.26%	3.58%
Barclays US Corp High Yield	0.41%	1.52%	2.43%	1.52%	21.54%	4.95%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.44%	0.57%	2.17%	0.57%	15.95%	-11.03%
S&P GSCI Crude Oil	-0.09%	-1.02%	6.94%	-1.02%	64.44%	-17.79%
S&P GSCI Gold	-1.37%	3.42%	-6.18%	3.42%	6.69%	-1.95%

Source: Morningstar

Chart of the Week: U.S. Dollar Headwinds Are Abating

Quarter	S&P Earnings & Annual US Dollar Changes				S&P 500 Earnings Yr/Yr Pct Change *
	JP Morgan US Dollar Index DXY	Federal Reserve Major Trade Partners MTP	US Dollar Index Broad	US Dollar Index Other Import Trade Parts. OITP	
	Past 3 Years				
1Q 2014	-3.47	0.82	2.38	3.67	5.8
2Q 2014	-4.04	-2.11	-0.69	0.48	11.4
3Q 2014	7.12	7.59	4.59	2.40	9.8
4Q 2014	12.79	11.38	9.00	7.27	4.6
1Q 2015	22.79	19.54	13.09	8.44	0.5
2Q 2015	19.69	18.47	13.34	9.63	-1.7
3Q 2015	12.12	13.78	13.91	14.00	-3.8
4Q 2015	9.26	10.95	10.50	10.17	-4.5
1Q 2016	-3.83	-2.22	2.55	6.34	-7.6
2Q 2016	0.69	0.78	5.26	8.76	-2.5
3Q 2016	-0.92	-2.44	0.74	3.12	-1.4 P
4Q 2016	3.63	1.38	4.26	6.39	4.4 E
Next 3 quarters *					
1Q 2017	6.02	5.22	6.90	8.13	13.0 E
2Q 2017	4.30	4.29	5.01	5.50	10.7 E
3Q 2017	5.05	5.02	4.91	4.86	9.8 E

Source: FR Board of Governors; *Bloomberg Survey; Argus Research Strategy

The extraordinary rise of the U.S. dollar since mid-2014 has encompassed two phases. First, beginning in 2013, came the breakdown of arguably overvalued developed country currencies --

the Japanese yen, the Euro and the Canadian dollar. Then, as Chart 1 above shows, in 2015, began a major correction of Emerging Market (EM) currencies that had lost competitive advantages against the developed market's group --notably China, Mexico and a host of smaller emerging markets. As the dollar became everyone's safe haven, the Fed's Major Trade Partners (MTP) based USD index rose nearly 20%, depressing U.S. exports and pushing U.S. manufacturing into recession.

The U.S. dollar is expected to stay in a high-level trading range, according to Argus Research. The MTP dollar reached a peak a year ago and remains around that level. The Other Import Trade Partners (OITP), the so-called EM dollar, has risen roughly 6% in the past year, but it has done so against China and other Asian economies, from which we import but to which we export relatively little. The surge in U.S. exports and manufacturing orders suggest the dollar stands at cyclical highs. Argus Research says the U.S. dollar momentum has peaked, reducing the negative impact on U.S. earnings. The year-over-year rise in the greenback have fallen from 14% to 20% in 2015 to mid-single-digit levels this year and next.

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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.*