Eye on the Market Express: April 2017

MARKET DATA				
	March	3 Mo.	YTD	1 Year
S&P 500	-0.04%	5.53%	5.53%	14.71%
Russell 2000	-0.05%	2.12%	2.12%	24.41%
NASDAQ	1.48%	9.82%	9.82%	21.39%
MSCI EAFE ($ basis)	2.15%	6.47%	6.47%	8.53%
MSCI EAFE (local)	1.94%	3.95%	3.95%	14.68%
UK (FTSE)	0.82%	2.52%	2.52%	18.59%
Germany (DAX)	4.04%	7.25%	7.25%	23.55%
Japan (NIKKEI)	-1.10%	-1.07%	-1.07%	12.83%
MSCI Emerging Markets ($ basis)	2.47%	11.14%	11.14%	14.53%
Barclays Aggregate	-0.05%	0.82%	0.82%	0.44%

All market data as of the end of March 2017. Quoted index returns are based on month end index prices (in local currency except where noted) and do not include dividends.

U.S. ECONOMIC DATA				
	March	Prior Month	Beginning of Year	1 Year Prior
10 year Treasury Yield	2.40%	2.36%	2.45%	1.79%
Gold (London pm fixing per ounce in dollars)	1,245	1,256	1,159	1,237
Oil ($ per barrel)	50.54	54.01	53.75	38.34
VIX Index	12.37	12.92	14.04	13.95

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March FOMC Meeting

The Federal Reserve's policy making arm, the Federal Open Market Committee (FOMC) concluded its second meeting of 2017 in the middle of March. In a largely expected move, the committee increased the target for the federal funds rate 0.25% to a range of 0.75-1.00%. In the press conference following the FOMC meeting, Federal Reserve Chair Janet Yellen stated "The simple message is the economy's doing well. We have confidence in the robustness of the economy and its resilience to shocks." Prior to the meeting there were concerns that the committee could increase rates more quickly than expected since several Fed officials, including Yellen herself, had publicly commented on the likelihood of raising rates, and inflation had picked up. These worries were mitigated as the committee left their forecasts for future rate hikes unchanged at two more quarter point rate increases this year followed by three in 2018, and Yellen assured that March's rate hike "does not represent a reassessment of the economic outlook or of the appropriate course for monetary policy." Yellen also struck a relatively relaxed tone towards inflation, saying it "seemed like a good time to remind Americans that…sometimes [inflation] is going to be below two percent, sometimes it is going to be above two percent. Two percent is not a ceiling." Addressing the possibility of fiscal spending and its potential effects on the economy, Yellen made clear the committee is waiting until there are concrete proposals, saying "there is great uncertainty about the timing, size, and the character of policy changes that may be put in place. I don't think that's a decision or set of decisions that we need to make until we know more about what policy changes will go into effect."

Economic Data

Economic data released in March was generally positive, although consumer data was relatively disappointing. Measurements of consumer attitudes have shown increased optimism since the election in November of last year, and March was no exception as the

Conference Board consumer confidence index hit its highest level since December 2000. Improved confidence could be due to the strength of the labor market. Nonfarm payrolls grew by 235,000 in February, well above expectations for 200,000 additions, and the unemployment rate fell to 4.7% even as the labor force participation rate increased to 63%. Unemployment claims continued to be muted. Paychecks are also improving as wages rose 2.8% from a year ago. However, evidence is weak that this improved outlook and income are translating into increased spending. Consumer spending in February edged up a disappointing 0.1% following a similarly sluggish 0.2% in January, and if inflation is accounted for, consumer spending declined for the second month in a row. This suggests overall economic growth likely slowed in the first quarter since consumption accounts for such a large share of the U.S. economy. The disappointing consumer data can be partially explained by the unseasonably warm weather since spending on utilities declined, although retail sales were also disappointing in February.

Data regarding investment was mixed as durable goods orders came in stronger than expected, rising 1.7%, but non-defense capital goods orders excluding aircraft, which are considered a proxy for business investment, unexpectedly declined 0.1%. Inventory investment was also mixed with business inventories rising and wholesale inventories falling. Data regarding the manufacturing sector, which accounts for approximately 12% of the economy, was generally positive. The Institute for Supply Management (ISM) manufacturing index increased for the sixth straight month to its highest level in three years to 57.7, and the jobs report indicated solid hiring. However, as with the consumer, manufacturing sentiment signals have been positive, but actual output has been more moderate with the Federal Reserve's gauge of factory production increasing 0.2% in December and January. The ISM non-manufacturing index, which measures the much larger service sector, rose again, marking its 86th month of expansion.

Looking at inflation, the Fed has a 2% target, and by its preferred measurement, the core Personal Consumption Expenditures index, it was near its goal. The index rose 1.8% in February from the year prior, and other measures indicate even higher inflation with the

Consumer Price index up 2.7% year-over-year. Finally, the last estimate of fourth quarter GDP showed the economy expanded at a 2.1% rate, up from 1.9%. The improved reading was primarily due to better than forecast data regarding consumer spending.

Equities

Domestic equities were mixed in March, with the benchmark S&P 500 index nearly flat, declining 0.04%. For the year, it is up 5.53%. Small cap stocks, as measured by the Russell 2000, performed in line with the benchmark for the month, falling 0.05% in March, but for the year, they trail the benchmark with a 2.12% increase. The NASDAQ, which focuses on technology stocks, rose 1.48% in March and is the best performer for the year, rising 9.82%. The best performing sector for the month was information technology, which is also the best performing sector for the year, rising 2.55% and 12.57% respectively. The information technology sector has been appealing since those companies are viewed as less sensitive to tax cuts and changes in interest rates and are expected to benefit from de-regulation. The worst performing sector for the month was financials, which declined 2.77%, although they are still up 2.53% for the year. Energy stocks also declined this month, and were the worst performing sector for the year, losing 6.68%. In a reversal of the second half of last year, for the first quarter, growth stocks outperformed value stocks, with growth stocks, as measured by the Russell 3000 growth index, rising 8.63% over the period while value stocks, as measured by the Russell 3000 value index, rose only 2.99%.

International

International stocks were also mixed in March with the MSCI EAFE index rising 1.94% on a local currency basis. When translated in to U.S. dollars the index rose 2.15% because the dollar depreciated for the month after the Fed announced that their rate hike outlook remained unchanged. British stocks, as measured by the FTSE 100 index, grew 0.82% in March, and are up 2.52% for the year. At the end of March, UK Prime Minister Teresa May triggered Article 50, which begins the process of Britain leaving the European Union. Economic data has been mixed as to whether the prospect of Brexit has been good for the economy or not. On one hand, recent evidence has shown exporters benefiting, but on the other hand consumer spending, which accounts for a much larger share of the economy has pulled back. German stocks, as measured by the DAX index, outperformed, rising 4.04% in March, bringing their year-to-date rise to 7.25%. The German economy has consistently shown strength over the last few months, with a closely-watched survey of the manufacturing and service sector hitting a 70-month high in March. In Japan, stocks as measured by the Nikkei 225 declined 1.10% for the month, and are down 1.07% for the year. Inflation turned positive in March for the first time since 2015, and the Bank of Japan continued its expansionary monetary policy of holding short term rates at -0.10% and ¥80 trillion in asset purchases per year. In emerging markets, stocks as measured by the MSCI Emerging Market index rose 2.47% for the month, bringing its return for the year to 11.14%. China, by far the largest emerging economy, announced this month that they are targeting a 6.5% GDP growth rate for 2017, its slowest growth rate target in decades.

Fixed Income

Fixed income returns were also mixed in March with the benchmark Bloomberg Barclays Aggregate Bond index declining 0.05%, and the yield on the 10-year Treasury note rising modestly from 2.36% to 2.40%. For a second month in a row, both credit sensitive and interest rate sensitive fixed income moved in the same direction with both losing value. On the credit sensitive side the Bloomberg Barclays U.S. Corporate High Yield lost 0.22% in March, and on the interest rate sensitive side the Bloomberg Barclays Long Term U.S. Treasury index lost 0.55%. Municipal bonds performed the best in March as the asset class benefited from increased demand from foreign investors and lower levels of issuance compared to a year ago.

Commodities

Commodity returns for the month were mostly negative with the benchmark Reuters/Jefferies CRB index declining 2.49%, bringing its year-to-date return to a 3.44% loss. In a reversal of last month, natural gas was the best performing commodity with spot prices rising 15.00% for the month due to lower inventory levels. Sugar was the worst performing commodity with spot prices declining 12.84% in March due to reduced demand and persistent supply. Oil prices also moved lower as West Texas Intermediate Crude spot prices declined from $54.01 to $50.54 a barrel.

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INDEX	DESCRIPTION
10 Year Treasury	The closing yield on 10-year Treasury notes calculated on a daily basis. Data sourced from the Federal Reserve.
Barclays Capital Aggregate Bond Index	A broad-based index used to represent performance of investment grade bonds traded in the United States. The index includes Treasury securities, government related and corporate securities, mortgage-backed securities and asset-backed securities.
Barclays Municipal Bond Index	An unmanaged index considered representative of the tax-exempt bond market.

BofAML Masters II High Yield Index	An unmanaged index tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Conference Board Consumer Confidence	An indicator used to measure consumer confidence in the economy produced by the Conference Board on a monthly basis based upon a survey of 5,000 households.
DAX (Germany)	A total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.
Dow Jones Industrial Average	An unmanaged index of 30 widely held securities.
Federal Funds Rate	Targeted interest rate at which depository institutions lend to each other overnight. The rate is targeted by the Federal Open Market Committee (FOMC).
FTSE (UK)	A capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.
FTSE NAREIT All REITs Index	Market capitalization weighted index that includes all tax-qualified REITs listed on the New York Stock Exchange.
GDP	A measure of broad economic output in the United States produced by the US Bureau of Economic Analysis on a quarterly basis with revisions made monthly.
Gold	Value of gold based upon the afternoon fix (15:00 GMT) in London each afternoon.
ISM	A measure of manufacturing activity reported by the Institute of Supply Management each month. A reading over 50 signifies growth in manufacturing during the month.
MSCI EAFE	A widely accepted benchmark of foreign stocks. It comprises 21 MSCI country indices, representing the developed markets outside North America: Europe, Australasia and the Far East.
MSCI Emerging Markets	A widely accepted benchmark of emerging markets stocks. It is a float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets.
NASDAQ	An unmanaged index of all stocks traded on the NASDAQ over-the-counter market.
Nikkei (Japan)	An unmanaged price-weighted index of 225 widely held stocks listed in Japan.
Oil	Closing value of light, sweet crude oil futures in the near month.
Retail Sales	A measure of retail sales compiled monthly by the US Department of Commerce
Russell 2000	An unmanaged index of small cap securities.

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S & P 500	An unmanaged index of 500 widely held stocks.
Shanghai Composite	Index of all listed (A and B share class) stocks traded on the Shanghai Stock Exchange.
Thomson-Reuters Jefferies CRB Index	A widely accepted benchmark of commodity prices. The index is designed to provide a representation of long-only broadly diversified investment in commodities.
Unemployment	A measure of unemployment compiled monthly by the US Bureau of Labor Statistics.
VIX Index	Measure of market expectations of near-term volatility based on S&P 500 stock option prices.