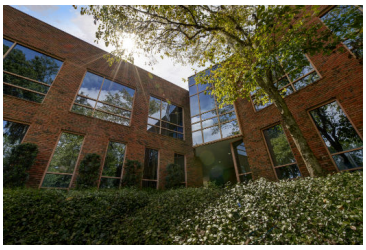

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# Market Month: February 2017

## The Markets (as of market close February 28, 2017)

Equities continued their positive trend in February as each of the benchmark indexes listed here posted monthly gains. The Dow recorded 12 record highs in February and posted a monthly gain of 4.77% — its best month since November. The S&P 500 (3.72%) and Nasdaq (3.75%) each climbed over 3.50% for the month. For the S&P 500, February marked the best monthly gain since last March. Since the presidential election, investors have continued to pour money into stocks, likely in anticipation of tax cuts and policies intended to boost corporate earnings. The yield on 10-year Treasuries fell as bond prices increased with higher demand.

By the close of trading on February 28, the price of crude oil (WTI) was $54.00 per barrel, up from the January 31 price of $52.80 per barrel. The national average retail regular gasoline price was $2.314 per gallon on February 27, up from the January 30 selling price of $2.296 and $0.531 higher than a year ago. The price of gold climbed at the end of February, closing at $1,248.80 on the last day of the month, up from its January 31 price of $1,212.50.

| Market/Index | 2016 Close | Prior Month | As of February 28 | Month Change | YTD Change |
|---|---|---|---|---|---|
| **DJIA** | 19762.60 | 19864.09 | 20812.24 | 4.77% | 5.31% |
| **NASDAQ** | 5383.12 | 5614.79 | 5825.44 | 3.75% | 8.22% |
| **S&P 500** | 2238.83 | 2278.87 | 2363.64 | 3.72% | 5.57% |
| **Russell 2000** | 1357.13 | 1361.82 | 1386.68 | 1.83% | 2.18% |
| **Global Dow** | 2528.21 | 2597.74 | 2655.35 | 2.22% | 5.03% |
| **Fed. Funds** | 0.50%-0.75% | 0.50%-0.75% | 0.50%-0.75% | 0 bps | 0 bps |
| **10-year Treasuries** | 2.44% | 2.45% | 2.39% | -6 bps | -5 bps |

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

## Last Month's Economic News

- **Employment:** Growth in the employment sector remained steady in January. According to the Bureau of Labor Statistics, there were 227,000 new jobs added in January, up from a revised December total of 157,000 and well above the 2016 average of 187,000. In January, employment trended up in retail trade, construction, and financial activities. The unemployment rate inched up 0.1 percentage point to 4.8%. In January, there were 7.6 million unemployed persons; the labor force increased by 584,000; the labor force participation rate rose by 0.2 percentage point to 62.9%; and the employment/population ratio increased 0.2 percentage point to 59.9%. The average workweek was 34.4 hours (the workweek in manufacturing was 40.8 hours compared to 33.6 workweek hours for private service-providing employees). Average hourly earnings rose by $0.03 to $26.00. Over the year, average hourly earnings have risen by 2.5%.

***Key Dates/Data Releases***

***3/1: Personal income and outlays***

***3/7: International trade***

***3/9: Import and export prices***

***3/10: Treasury budget, employment situation***

***3/14: Producer Price Index***

***3/15: Consumer Price Index, retail sales, FOMC meeting announcement***

***3/16: Housing starts***

***3/17: Industrial production, consumer sentiment***

***3/22: Existing home sales***

***3/23: New home sales***

***3/24: Durable goods orders***

***3/28: International trade in goods***

***3/30: GDP***

***3/31: Personal income and outlays***

- **FOMC/interest rates:** In January, the FOMC maintained the target range for the federal funds rate at 0.50%-0.75%. However, continued strength in the labor market and consumer spending, which has sent inflation closer to the Fed target rate of 2.0%, will substantiate further rate increases, with the next one possibly coming as early as March.
- **GDP/budget:** According to the "second" estimate of the GDP from the Bureau of Economic Analysis, fourth-quarter 2016 gross domestic product grew at an annualized rate of 1.9% (the same rate as the first estimate). The growth rate for the third-quarter GDP was 3.5%. Real GDP increased 1.6% in 2016 (that is, from the 2015 annual level to the 2016 annual level), compared with an increase of 2.6% in 2015. Factors driving the downward movement of the GDP include deceleration in exports, an acceleration in imports (a negative in the GDP calculation), and a downturn in federal government spending. The price index for gross domestic purchases increased 1.9% in the fourth quarter, compared with an increase of 1.5% in the third quarter. The federal budget ran a surplus of $51.27 billion for the month of January compared to a monthly deficit of $27.34 billion in December. So far this fiscal year, which began October 2016, the deficit sits at $156.94 billion compared to $160.48 billion over the same period last fiscal year. For fiscal year 2017, corporate tax receipts are down, as are Medicare costs compared to the same period over the 2016 fiscal year.
- **Inflation/consumer spending:** Consumer spending increased in January as inflation continues to trend upward. Personal income (pre-tax earnings) increased 0.4% for the month while disposable personal income (income less taxes) rose 0.3%. Personal spending, as measured by personal consumption expenditures, climbed 0.2% in January. The personal consumption expenditures price index increased 0.4% in January, and is up 1.9% for the year. The Producer Price Index, which measures the change in the prices companies receive for goods and services, increased 0.6% in January following December's 0.2% advance. The majority of the gain in the PPI is attributable to the prices of goods, which rose 1.0%. Prices for services increased 0.3%. Over the last 12 months, producer prices have increased 1.6%. The Consumer Price Index, which measures what consumers pay for both goods and services, increased 0.6% in January following a 0.3% increase in December. January's gain marks the largest monthly increase in consumer prices since February 2013. Year-over-year, the CPI has risen 2.5% — the largest 12-month increase in nearly five years. Sales at the retail level also increased, climbing 0.4% in January over December and 5.6% from last year. Excluding auto sales, retail sales rose 0.8% for the month. Sales for nonstore (online) retailers are up 12.0% from January 2015.
- **Housing:** Despite low inventory, the housing market picked up in January. Existing home sales rose 3.3% following a 2.8% dip in December. January's sales pace is 3.8% above the January 2016 sales pace. The median sales price for existing homes in January was $228,900, down from December's median price of $232,200 but 7.1% higher than the median sales price for January 2016. Total housing inventory at the end of January increased 2.4% to 1.69 million existing homes available for sale, which represents a 3.6-month supply. New home sales also increased in January, according to the Census Bureau's latest report. Sales of new single-family homes jumped 3.7% to an annual rate of 555,000 — up from December's rate of 535,000. The median sales price of new houses sold in January was $312,900, while the average sales price was $360,900. The seasonally adjusted estimate of new houses for sale at the end of January was 265,000. This represents a supply of 5.7 months at the current sales rate.
- **Manufacturing:** The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) fell 0.3% in January, influenced by a drop in utility output. On the plus side, manufacturing output increased 0.2%, while mining production jumped 2.8%. The index for utilities fell 5.7%, largely because unseasonably warm weather reduced the demand for heating. Capacity utilization for the industrial sector fell 0.3 percentage point in December to 75.3%, a rate that is 4.6 percentage points below its long-run (1972-2015) average. Overall, total industrial production in January was essentially unchanged from its year-earlier level. The advance report from the Census Bureau shows new orders for all durable goods (expected to last at least three years) increased 1.8% in January, following two consecutive monthly decreases. Excluding the volatile transportation segment, new orders decreased 0.2%. A 6.0% increase in orders for transportation equipment drove the increase in new orders.
- **Imports and exports:** The international trade deficit was $69.2 billion in January, up $4.9 billion from $64.4 billion in December. Exports of goods for January were $126.2 billion, $0.4 billion less than December exports. Imports of goods for January were $195.4 billion, $4.4 billion more than December imports. According to the Bureau of Labor Statistics, import prices advanced 0.4% in January, following a 0.5% increase the previous month. The advance in January was primarily driven by higher fuel prices (5.8%), which more than offset a drop in nonfuel prices (-0.2%). Export prices increased 0.1% in January after advancing 0.4% in December. Prices for overall exports rose 2.3% for the year ended in January, which is the highest 12-month increase since the year ended January 2012.
- **International markets:** Earnings reports from European companies have been positive for the most part, adding to the optimistic economic outlook in Europe. The European Central Bank reported that

none of the eurozone's 19 member countries was in deflation during January as consumer prices rose on the year. Consumer prices also surged in China — advancing at their fastest pace in over two years. China's Consumer Price Index increased 2.5% in January from a year earlier. The Greek debt crisis, into its seventh year, continues to fester as a rift developed between eurozone and International Monetary Fund creditors over whether Greece could meet its budget targets. It appears that a compromise is near with new reforms in the offing.

- **Consumer sentiment:** Consumers' confidence in the economy waned slightly in January. The Conference Board Consumer Confidence Index® dropped 1.5 points to 111.8. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment climbed 0.3 percentage point to 98.5. Both reports evidenced favorable consumer expectations for the economy.

## Eye on the Month Ahead

The announcement following the Federal Open Market Committee's March meeting will be a focus for investors. Judging from the minutes following the Committee's February meeting, an interest rate increase in March is definitely on the table.

*Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.*

*The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.*

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**IMPORTANT DISCLOSURES**

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