

## February 2017 Market Watch

Domestic markets finished February sharply positive, as fourth quarter earnings results continued to show relatively robust growth. Consensus data is now expecting fourth quarter earnings growth for the S&P 500 of +4.6% from the same period a year ago, which would mark the second consecutive quarter of year-over-year growth and the first period of back-to-back earnings growth since the first quarter of 2015. The S&P 500 had previously posted five consecutive quarters of earnings contractions from the beginning of 2015 through the first half of 2016. Additionally, consensus estimates are now projecting earnings growth of +10% for 2017, with the energy sector expected to drive the lion's share of the growth. As a point of reference, earnings grew at a compound annual growth rate of +3% from 2011 through 2016. With that said, valuations have risen much faster than earnings have, which seems to imply that investors are expecting potential tailwinds from a corporate tax overhaul, infrastructure spending, fiscal stimulus, and decreases in regulatory burdens to fully materialize. The S&P 500 now trades at a forward price to earnings ratio of 18x, which is the highest multiple it has traded at since 2004 and well above its five, ten, and twenty year averages.

The Dow Jones Industrial Average (DJIA) was the best performing major U.S. index for the month (+4.8% MTD), followed by the Nasdaq Composite (+3.8% MTD) and S&P 500 (+3.7% MTD). Last year's best performing domestic index, the small-cap focused Russell 2000, remains this year's "laggard" (+1.8% MTD & +2.2% YTD), while strong earnings in the technology sector have led to the Nasdaq's outperformance (+8.2% YTD). In February, nine of the eleven sectors were positive, led by the Health Care

	Date		1 Week Ago		1 Month Ago		1 Year Ago		YTD
	2/28/2017	2/21/2017	% chg	1/31/2017	% chg	2/29/2016	% chg	Return *	
DJIA	20,812.2	20,743.0	0.3%	19,864.1	4.8%	16,516.5	26.0%	5.3%	
S&P 500	2,363.6	2,365.4	-0.1%	2,278.9	3.7%	1,932.2	22.3%	5.6%	
NYSE Comp Index	11,512.4	11,578.3	-0.6%	11,223.0	2.6%	9,559.5	20.4%	4.1%	
NASDAQ Composite	5,825.4	5,866.0	-0.7%	5,614.8	3.8%	4,558.0	27.8%	8.2%	
Russell 2000	1,386.7	1,410.3	-1.7%	1,361.8	1.8%	1,033.9	34.1%	2.2%	

  

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	2/28/2017	2/21/2017	% chg	1/31/2017	% chg	2/29/2016	% chg	Return *	
Japan Nikkei 225	19,119.0	19,381.4	-1.4%	19,041.3	0.4%	16,026.8	19.3%	0.0%	
MSCI EM (Emerging Markets)	936.4	945.6	-1.0%	909.2	3.0%	740.3	26.5%	8.6%	
MSCI EAFE	1,753.1	1,754.0	0.0%	1,732.4	1.2%	1,558.2	12.5%	4.1%	
FTSE 100	7,263.4	7,274.8	-0.2%	7,099.2	2.3%	6,097.1	19.1%	2.5%	
SSE Composite Index	3,241.7	3,253.3	-0.4%	3,159.2	2.6%	2,688.0	20.6%	4.4%	

### US Equity Sector Performance

	February	YTD	1-yr ret.
Consumer Discretionary	1.9%	6.3%	18.3%
Consumer Staples	5.0%	6.7%	11.5%
Energy	-2.2%	-5.7%	26.2%
Financials	5.2%	5.4%	46.4%
Health Care	6.4%	8.8%	15.2%
Industrials	3.8%	5.3%	27.7%
Information Tech	5.1%	9.8%	33.0%
Materials	0.7%	5.4%	27.8%
Telecom	-0.4%	-2.9%	9.4%
Utilities	5.3%	6.6%	15.9%
Real Estate Investment Trusts	4.5%	4.5%	14.2%

### US Equity Style Performance

	February	YTD	1-yr ret.
Dow Jones Utilities	5.1%	6.6%	13.3%
AMEX DJ TRANS Avg.	2.7%	4.4%	30.2%
Russell 1000 Value	3.6%	4.3%	29.1%
Russell 1000 Growth	4.2%	7.7%	22.2%
Russell 2000 Value	1.4%	0.7%	41.3%
Russell 2000 Growth	2.5%	4.1%	30.9%

sector (+6.4% MTD). The Telecom (-0.4% MTD) and Energy (-2.2% MTD) sectors continued to underperform the broader market. International markets were also sharply positive during the month, led by the MSCI Emerging Markets (+3.0% MTD) and China's SSE Composite (+2.6% MTD) indices.

The yield curve flattened during the month of February, as short term rates rose while long term rates declined. Bond prices move inversely to bond yields, therefore an increase in bond yields results in a decline in bond prices and vice versa. The yield on the 3-Month U.S. Treasury bill increased nine basis points to 0.61%, while the yield on the 10-Year U.S. Treasury bond declined seven basis points to 2.39%. The market is currently pricing in a 40% chance that the Federal Reserve will decide to raise interest rates during its next scheduled meeting on March 15<sup>th</sup>.

The Bloomberg Commodity Index finished the month essentially flat (+0.2% MTD) despite a second consecutive month of sharp increases in Gold (+3.5% MTD), which finished the month at \$1,253.90 per ounce. Crude oil increased +2.3% MTD to finish February at \$54.01 per barrel and remains well above where it traded this time last year (+60% year-over-year). Lastly, February saw renewed strength in the U.S. dollar (+1.7% MTD), which remains at multi-year highs. A strong U.S. dollar makes exports more expensive and weakens corporate profits earned outside of the U.S. Approximately one-third of the earnings for the companies that make up the S&P 500 come from outside of the United States.

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## Bond Markets (%)

	2/28/2017	1 Mth Ago	1 Yr. Ago
US Benchmark Bond - 3 Month	0.61	0.52	0.32
US Benchmark Bond - 6 Month	0.75	0.63	0.46
US Benchmark Bond - 2 Year	1.26	1.21	0.78
US Benchmark Bond - 5 Year	1.93	1.92	1.21
US Benchmark Bond - 10 Year	2.39	2.46	1.74
US Benchmark Bond - 30 Year	3.00	3.07	2.62

## US Bond Sector Performance

	February	YTD	1-Year Return
Barclays U.S. Aggregate Govt. Interm. TR	0.3%	-0.5%	-0.5%

## Exchange Rates (Rate per US dollar)

	2/28/2017	1 month Ago	1 Year Ago
Canadian Dollar	1.324	1.304	1.355
Mexican New Peso	19.993	20.761	18.087
Euro	0.941	0.925	0.920
British Pound	0.804	0.795	0.718
Swiss Franc	1.001	0.987	0.996
Chinese Yuan	6.869	6.878	6.547
Indian Rupee	66.719	67.845	68.425
Japanese Yen	111.885	112.575	112.875

## Commodities (In US dollars)

	2/28/2017	1 Mth Ago	1 Yr. Ago
Gold	1,253.90	1,211.40	1,234.40
Crude Oil	54.01	52.81	33.75
US Dollar Index	101.13	99.48	98.22
DJ UBS Commodity IDX	87.74	87.59	75.95

## Interest Rates (%)

	2/28/2017	1 Mth Ago	1 Yr. Ago
PRIME RATE	3.75	3.75	3.50
FEDERAL FUNDS RATE	0.66	0.66	0.38
LIBOR RATE 30 DAY	0.16	0.16	0.16
LIBOR RATE 3 MONTHS	0.23	0.23	0.23
30YR FIXED MORTGAGE	4.16	4.19	3.64

## Economic Sentiment

	2/28/2017	1 Yr. Ago
Unemployment Rate	4.80%	4.90%
Average Single Family Home (\$)	271,700	256,000
Capacity Utilization	75.35%	75.61%

\*Performance for world indices represents price returns (excluding dividends) for the DJIA, S&P 500, NASDAQ, Russell 2000, MSCI EM, MSCI EAFE, NYSE, SSE, and Nikkei, due to data availability.

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