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MARKET REVIEW – JANUARY - APRIL 2017

Dear Client:

The beginning of 2017 is now well on its way and we hope this finds you enjoying the first half of the year. For those who remember the volatility last year, this has been a much quieter ride than the rollercoaster of the first half of 2016. Domestic stocks had a solid start to the year. Although major indexes were a little lackluster in March, April saw a return to the positive trend. Long-term bond prices continued their first quarter rise with the accompanied decrease in yields. Overall inflation and spending dropped and consumer sentiment and jobless claims proved positive. Quarterly earnings reports were generally positive.

Snapshot

The Markets

- **Equities:** Stocks surged for much of the first quarter of 2017. The benchmark indexes listed here reached historic highs throughout the quarter. At the end of January, the Dow reached the magic 20000 mark for the first time, while the tech-heavy Nasdaq gained almost 4.50% for the month. The trend continued in February, as stocks posted solid monthly gains. The Dow closed the month with a run of 12 consecutive daily closings that reached all-time highs. The S&P 500 also achieved a milestone — 50 consecutive trading sessions without a daily swing of more than 1.0%. At the close of trading in February, each of the benchmark indexes listed here posted year-to-date gains, led by the Nasdaq, which was up over 8.0%. March began with a bang but ended with a whimper. The Dow closed the first week of the month at over 21000, while the Nasdaq gained over 9.0% year-to-date. However, energy stocks slipped as the price of oil began to fall. For the quarter, each of the indexes listed here posted impressive gains over their fourth-quarter closing values. The Nasdaq climbed the most, posting quarterly gains of close to 10.0%, followed by the Global Dow and the S&P 500, which achieved its largest quarterly gain in almost two years.

  Equities continued their positive trend in April, spurred by favorable corporate earnings reports, proposed federal tax cuts, and positive economic signals overseas. The Nasdaq surpassed 6000 for the first time in its history, while the small-cap Russell 2000 reached a record high by the end of April. Each of the benchmark indexes listed here posted monthly gains, led by Nasdaq, which increased 2.30%, followed by the Global Dow, which gained almost 1.50% month-over-month. The large-cap Dow and S&P 500, while gaining in value, may have lagged a bit following less than favorable GDP and jobs growth.

- **Bonds:** Entering mid-March, investors exercised caution pending the potential Fed interest rate hike and the push for a new health-care law. Following its mid-March meeting, the Fed raised interest rates 25 basis points. The yield on 10-year Treasuries fell 10 basis points as bond prices increased. Long-term bond prices increased in the first quarter with the yield on 10-year Treasuries falling 6 basis points. In April, the yield on 10-year Treasuries fell 10 basis points as bond prices further increased.

- **Gold:** Gold prices also climbed during the first three months of the year, closing the quarter at $1,251.60 — about 8.5% higher than its price at the end of the fourth quarter. The price of gold continued its upward climb in April, closing at $1,269.50 on the last trading day of the month.

The Economy

- **Employment:** February's employment report showed continued strengthening in the labor sector with 235,000 new jobs added in the month, on the heels of 238,000 new jobs added in January. Job gains occurred in construction, private educational services, manufacturing, health care, and mining. The unemployment rate dipped to 4.7% — down from 4.9% a year earlier. There were 7.5 million unemployed persons in February. The labor participation rate inched up 0.1 percentage point to 63.0%. The average workweek was unchanged at 34.4 hours in February. Average hourly earnings increased by $0.06 to $26.09, following a $0.05 increase in January. Over the last 12 months ended in February, average hourly earnings have risen by $0.71, or 2.8%.

  The employment report for March showed job hirings slowed to 98,000 following gains of 219,000 in February and 216,000 in January, revised. Over the month, employment growth occurred in professional and business services (+56,000) and in mining (+11,000), while retail trade lost jobs (-30,000). The unemployment rate dipped to 4.5% — the lowest rate since April 2007. There were 7.2 million unemployed persons in March (7.5 million in February). The labor participation rate remained at 63.0%. The average workweek was 34.4 hours in March. Average hourly earnings increased by $0.05 to $26.14, following a $0.06 increase in February. Over the last 12 months ended in March, average hourly earnings have risen by $0.68, or 2.7%.

- **FOMC/interest rates:** Following its meeting in March, the Federal Open Market Committee raised the target range for the federal funds rate by 25 basis points to 0.75%-1.00%. This is the first interest rate change for 2017, although the FOMC projects that it will increase rates two more times this year. The Committee expects that economic activity will expand at a moderate pace, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2% over the medium term. FOMC Chair Janet Yellen supported the current rate hike, cautioning that without gradual rate increases inflation could escalate, requiring the Committee to raise rates rapidly which, in turn, could risk disrupting financial markets and push the economy into recession.

  The Federal Open Market Committee did not meet in April. The minutes from its March meeting revealed all 17 members of the Committee supported the March rate hike and agreed that the economy was at or near full employment. However, inflation remains below the 2.0% target, although several members of the Committee expected that target to be reached during the year. While the FOMC anticipated raising interest rates three times during 2017, some members of the Committee will want to see solid economic growth before voting to increase rates at the next FOMC meeting in May.

- **Oil:** The price of crude oil (WTI) closed March at $50.85 per barrel, after spending much of the month hovering around $48.00 per barrel. The national average retail regular gasoline price was $2.314 per gallon on February 27, 2017, $0.018 higher than the January 30 price and $0.531 more than a year ago. By the close of trading on April 28, the price of crude oil (WTI) was $49.19 per barrel, down from the March 31 closing price. The national average retail regular gasoline price was $2.449 per gallon on April 24, 2017, up from the March 27 selling price of $2.315 and $0.287 more than a year ago.

- **GDP/budget:** Expansion of the U.S. economy slowed over the first three months of 2017. According to the Bureau of Economic Analysis, the first-quarter 2017 gross domestic product grew at an annualized rate of 0.7% compared to the fourth-quarter 2016 GDP, which grew at an annual rate of 2.1%. Growth in the GDP was slowed by an increase in imports, and by weakening consumer, federal, state, and local government spending. Positives include increases in residential and nonresidential (business) investment. An indicator of inflationary trends, the price index for gross domestic purchases increased 2.6% in the fourth quarter, compared to an increase of 2.0% in the fourth quarter. As to the government's budget, the federal deficit for March was $176.2 billion. Over the first six months of the 2017 fiscal year, the deficit sits at $526.9 billion, which is 15.0% higher than the deficit for the first six months of the 2016 fiscal year.

- **Inflation/consumer spending:** Inflation, as measured by personal consumption expenditures, reached the Fed's 2.0% annual target in February. For the 12 months ended in February 2017, personal consumption expenditures expanded at a rate of 2.1%. Core PCE (excluding energy and food) increased 1.8%. For February, PCE climbed 0.1%, while core PCE rose 0.2%, following a 0.3%

monthly increase in January. Personal income (pre-tax earnings) rose 0.4% for the month, and disposable personal income (income less taxes) enjoyed a 0.3% increase over January. For the 2016 calendar year, personal income increased 3.6% from the 2015 annual level, compared with an increase of 4.4% in 2015. Disposable personal income increased 3.9% in 2016, compared with an increase of 3.8% in 2015. In 2016, PCE increased 3.9% compared with an increase of 3.5% in 2015.

The prices companies receive for goods and services trended higher in February as the Producer Price Index climbed 0.3% for the month. Year-over-year, producer prices have increased 2.2%. Energy prices have played a large part in the upward movement of the PPI, climbing 0.6% in February. The PPI less food and energy has risen 1.5% for the year, after climbing 0.3% in February.

Consumer prices also increased marginally in February, climbing 0.1%. However, consumer prices are up 2.7% for the year, a mark that is not only well above the Fed's 2.0% target for inflation, but stands as the highest rate of growth in almost five years. Even the core rate, which excludes energy, is holding steady at 2.2% since February 2016.

Inflation, as measured by personal consumption expenditures, slowed a bit in March. For the 12 months ended in March 2017, the personal consumption expenditures price index expanded at a rate of 1.8%. For the 12 months ended in February, the PCE price index expanded at a rate of 2.1%. For March, personal income increased 0.2% over February. Disposable personal income (after-tax income) increased 0.2%. Personal consumption expenditures (the value of goods and services purchased by consumers) gained less than 0.1% for the month.

The prices companies receive for goods and services fell in March from February, as the Producer Price Index dropped 0.1% for the month. Year-over-year, producer prices have increased 2.3%. Energy prices play a large part in the movement of the PPI, and in March energy prices slipped 2.9%, while food prices increased 0.9%. The PPI less food and energy has risen 1.6% for the year, after recording no change in March from February.

In another sign of waning inflation, consumer prices also retreated in March, slipping 0.3% from February. For the year, consumer prices are up 2.4%. Core prices, which exclude food and energy, dropped 0.1% for the month and have increased 2.0% since March 2016.

- **Housing:** The housing sector proved to be a mixed bag in February as the sales pace of existing homes slowed while new home sales increased. Higher home prices and a lack of available homes for sale are the main reasons for the drop in the sales of existing homes, which fell 3.7% to a seasonally adjusted annual rate of 5.48 million, down from January's revised annual rate of 5.69 million, according to the National Association of Realtors®. However, February's sales pace is still 5.4% above a year ago. The median sales price for existing homes was $228,400 — up 7.7% from January. Total housing inventory at the end of February increased 4.2% to 1.75 million existing homes available for sale, but is 6.4% lower than a year ago (1.87 million) and has declined year-over-year for 21 straight months. Conversely, the Census Bureau's latest report reveals a spike in new home sales. Sales of new single-family homes increased 6.1% in February to an annual rate of 592,000 — up from January's rate of 558,000. The median sales price of new houses sold in February was $296,200, while the average sales price was $390,400. The seasonally adjusted estimate of new houses for sale at the end of February was 266,000. This represents a supply of 5.4 months at the current sales rate, which is up from 262,000 homes available (supply of 5.4 months) in January.

  The housing sector showed strength in March as home sales, prices, and building permits increased over the prior month. Existing home sales surged in March, climbing 4.4% to a seasonally adjusted annual rate of 5.71 million, up from February's revised annual rate of 5.47 million. Existing home sales are 5.9% ahead of the sales pace from a year ago, which marks the strongest sales month since February 2007. The median sales price for existing homes rose 3.6% to $236,400. Total housing inventory at the end of March increased 5.8% to 1.83 million existing homes available for sale (6.6% lower than a year ago). Sales of newly constructed homes also increased in March, according to the Census Bureau's report. Sales of new single-family homes expanded 5.8% in March to an annual rate of 621,000 — up from February's rate of 587,000. The median sales price of new houses sold in March was $315,100, while the average sales price was $388,200. The seasonally adjusted estimate of new houses for sale at the end of March was 268,000. This represents a supply of 5.2 months at the current sales rate, which is up from 266,000 homes available (supply of 5.4 months) in February.

- **Manufacturing:** One of the reasons the Fed raised interest rates in March is the increase in manufacturing production. The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) remained at the same level in February as the prior month, held down by another weak month for utilities. Unseasonably warm weather prompted utility production to fall 5.7% in February following a 5.8% drop in January. However, manufacturing production increased 0.5% month-over-month, which is the largest increase in monthly volumes since July 2015. At 104.7% of its 2012 average, total industrial production in February was 0.3% above its level of a year earlier. Capacity utilization for the industrial sector declined 0.1 percentage point in February to 75.4%. As for durable goods, the latest report from the Census Bureau shows new orders increased 1.7% in February from the prior month. Excluding the volatile transportation segment, new durable goods orders gained a lackluster 0.4%. Orders for core capital goods (excluding defense and transportation) dropped 0.1% for the month, but are up 2.7% over February 2016.

Manufacturing slowed in March, according to the Federal Reserve. Manufacturing output fell 0.4% in March, led by a large step-down in the production of motor vehicles and parts. Factory output, aside from motor vehicles and parts, moved down 0.2%. Overall, industrial production increased 0.5% due to a jump of 8.6% in the output of utilities — the largest increase in the history of the index — as the demand for heating returned to seasonal norms after being suppressed by unusually warm weather in February. For the first quarter as a whole, industrial production rose at an annual rate of 1.5%. At 104.1% of its 2012 average, total industrial production in March was 1.5% above its year-earlier level. As for durable goods, the Census Bureau shows new orders increased 0.7% in March, a slower growth rate than February's revised 2.3% increase. Excluding the volatile transportation segment, new durable goods orders fell 0.2%. Orders for core capital goods (excluding defense and transportation) increased 0.2% for the month and 3.0% over the past 12 months.

- **Imports and exports:** The advance report on international trade in goods revealed that the trade gap narrowed by 5.9% in February. The overall trade deficit in February was down $4.1 billion from January. Exports declined 0.1% to $126.8 billion, $0.1 billion less than January exports. Imports fell 2.1% to $191.6 billion, $4.2 billion less than January imports. The prices for U.S. imports of goods advanced 0.2% in February, led by higher nonfuel import prices, which more than offset lower fuel prices. U.S. export prices rose 0.3% in February, after advancing 0.2% in January. Export prices haven't recorded a monthly decline since the index fell 0.8% in August 2016.

  The advance report on international trade in goods revealed that the trade gap grew by 1.4% in March. The overall trade deficit was $64.8 billion, up from February's deficit of $63.9 billion. Exports declined $2.2 billion to $125.5 billion. Imports were $190.3 billion in March, down $1.4 billion from February's total. The prices for U.S. imports of goods dropped 0.2% in March, led by a 3.6% drop in petroleum prices. U.S. export prices rose 0.2% for the month, after advancing a revised 0.4% in February. Export prices haven't recorded a monthly decline since the index fell 0.8% in August 2016.

- **International markets:** A relatively positive stream of eurozone economic data helped international stocks post gains for February. Both manufacturing and service sectors accelerated during the month, while eurozone job creation reached a 10-year high. In Great Britain, Prime Minister May continued to push forward with Brexit amid pushback from Parliament and protestors. Nevertheless, the UK delivered written notice to the president of the European Union, formally beginning the process of leaving the EU. This action now opens a two-year window for Britain to negotiate the terms of its exit. One of the potentially contentious issues that will be addressed is whether, and how much, Britain will pay to leave the bloc. In Japan, retail sales increased 1.0% for the month, although the fourth-quarter GDP growth slowed from the previous quarter.

  In France, the rise of Emmanuel Macron, a former investment banker, as the heavy favorite to win the May 7 presidential race sent stocks and the euro higher, as the eurozone continues to gain its economic footing following the financial crisis of 2008. Long-term government bond prices continued to fall in China, sending bond yields to their highest levels in 20 months, following a sell-off of Chinese stocks. On a positive note, Greece reached a budget surplus that's eight times higher than the 0.5% primary target set by its creditors. This bodes well for continued bailout support for the financially embattled country.

- **Consumer sentiment:** The Conference Board Consumer Confidence Index® for February rose 3.2 points to 114.8. Consumers expressed confidence in the job market, which increased expectations for the economy in general. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment dipped from a 10-year high of 98.5 in January to 96.3 in February. Nevertheless, consumers continued to express optimism about current economic conditions, as the Current Conditions Index has been trending upward since December 2016.

  Consumer confidence in the economy slid back in April. The Conference Board Consumer Confidence Index® for April fell to 120.3 from March's 123.1. While consumers expressed confidence in the job market, there was a decline in those who saw their income rising in the future. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment climbed to 98.0 in April. The March index was 96.9. Consumers expressed optimism about current economic conditions, as the Current Conditions Index increased 2.0 percentage points over March's reading.

Market/ Index	2016 Close	As of March 31	Month Change	Quarter Change	As of April 28	Month Change	YTD Change
DJIA	19762.60	20663.22	-0.72%	4.56%	20940.51	1.34%	5.96%
NASDAQ	5383.12	5911.74	1.48%	9.82%	6047.61	2.30%	12.34%
S&P 500	2238.83	2362.72	-0.04%	5.53%	2384.20	0.91%	6.49%
Russell 2000	1357.13	1385.92	-0.05%	2.12%	1400.43	1.05%	3.19%
Global Dow	2528.21	2691.45	1.36%	6.46%	2731.15	1.48%	8.03%
Fed. Funds	0.50%-0.75%	0.75%-1.00%	25 bps	25 bps	0.75%-1.00%	0 bps	25 bps
10-year	2.44%	2.38%	-1 bps	-6 bps	2.28%	-10 bps	-16 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.

Eye on the Month Ahead

While the Fed is expected to consider three more rate increases during 2017, the benchmark rate target remained unchanged after early-May meeting. The Fed did not, however, give any indication that it would alter its intention to raise rates in the future.

In Closing

We will continue to watch economic and market developments and how they affect our overall strategies. In the meantime, we encourage you to keep a focus on your long-term goals and objectives. It continues to be a privilege to work with you to those ends. In the meantime, we wish you and your family a safe and wonderful summer.

Warmest Regards,

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