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Market Month: January 2017

The Markets (as of market close January 31, 2017)

Investors were cautious for much of the month, likely waiting to see what President Trump would do during his first few weeks in office. After a slow close to December, equities picked up the pace during the early part of January as each of the indexes listed here closed the first full week of the month posting gains of nearly 1.0% or more. The market moved very little for much of the month until January 25, when stocks surged. The Dow reached the magic 20000 for the first time while both the S&P 500 and Nasdaq reached all-time highs. The stock market rally proved to be short-lived, however, as investors pulled back from stocks and moved to gold and long-term bonds. Nevertheless, each of the indexes listed here posted month-over-month gains, led by the Nasdaq, which closed the first month of 2017 over 4.0% ahead of its 2016 year-end value.

Despite OPEC's agreement to cut production, oil prices have remained in the low $50s per barrel for the month, reaching a high of $54.87 early in January and a low of $51.70 a few days later. But by the close of trading on January 31, the price of crude oil (WTI) was $52.80 per barrel. The national average retail regular gasoline price was $2.296 per gallon on January 30, up from the December 26 selling price of $2.254. The price of gold climbed at the end of January, closing at $1,212.50 on the last day of the month, up from its December 30 price of $1,154.30.

Market/Index	2016 Close	Prior Month	As of January 31	Month Change	YTD Change
DJIA	19762.60	19762.60	19864.09	0.51%	0.51%
NASDAQ	5383.12	5383.12	5614.79	4.30%	4.30%
S&P 500	2238.83	2238.83	2278.87	1.79%	1.79%
Russell 2000	1357.13	1357.13	1361.82	0.35%	0.35%
Global Dow	2528.21	2528.21	2597.74	2.75%	2.75%
Fed. Funds	0.50%-0.75%	0.50%-0.75%	0.50%-0.75%	0 bps	0 bps
10-year Treasuries	2.44%	2.44%	2.45%	1 bps	1 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:** Once again, the employment sector remained steady during December. According to the Bureau of Labor Statistics, there were 156,000 new jobs added in December, down from a revised November total of 204,000. For the year, job growth totaled 2.2 million in 2016, less than the 2.7 million increase in 2015. In December, employment trended up in health care and social assistance, trade and transportation, manufacturing, government, and professional and business services. The unemployment rate inched up 0.1 percentage point to 4.7%. There were 7.5 million unemployed persons in December. Both the unemployment rate and the number of unemployed persons have changed little since August

Key Dates/Data Releases

2/1: FOMC meeting

2/3: Employment situation

2/7: International trade

2/10: Treasury budget, import and export prices

2/15: Consumer Price Index, retail sales, industrial production

2/16: Housing starts

2/22: Existing home sales, consumer sentiment

2/24: New home sales

2/27: Durable goods orders

2/28: GDP, international trade in goods

of last year. The labor force participation rate was 62.7% and the employment/population ratio came in at 59.7%. The average workweek was 34.3 hours (the workweek in manufacturing was 40.7 hours compared to 33.6 workweek hours for private service-providing employees). Average hourly earnings rose by $0.10 to $26.00. Over the year, average hourly earnings have risen by 2.9%.

- **FOMC/interest rates:** In December, the FOMC raised the target range for the federal funds rate by 0.25% to 0.50%-0.75%. The Committee projects three additional rate increases through 2017, presuming the economy and job market continue to improve. The Fed anticipates that the median federal funds rate will be 1.4% by the end of 2017.
- **GDP/budget:** According to the "first" 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 growth rate for the third-quarter GDP was 3.5%. Factors driving the downward movement of the GDP include deceleration in exports and an acceleration in imports (a negative in the GDP calculation). Personal income increased $152.0 billion in the fourth quarter, compared to an increase of $172.3 billion in the third. The deceleration in personal income primarily reflected a slowdown in wages and salaries. As to the government's budget, the federal deficit shrunk in December to $27.5 billion compared to $136.6 billion the prior month. However, three months into the government's 2017 fiscal year, the deficit sits at $208.4 billion compared to $215.5 billion over the same period in FY 2016.
- **Inflation/consumer spending:** Consumer spending increased in December as inflation continues to slowly, but discernibly, trend upward. Personal income (pre-tax earnings) and disposable personal income (income less taxes) each rose 0.3%, while personal spending, as measured by personal consumption expenditures, increased 0.5% for the month. The personal consumption expenditures price index increased 0.2% for the month, and is up 1.6% for the year. Core personal consumption expenditures (personal spending excluding volatile food and energy costs) rose 0.1% in December. The core PCE index is up 1.7% year-over-year. The Producer Price Index, which measures the prices companies receive for goods and services, increased 0.3% in December following November's 0.4% advance. However, the majority of the December upturn was attributable to increasing energy costs. Prices less foods, energy, and trade services inched up only 0.1% in December. For 2016, the Producer Price Index, less foods, energy, and trade services, climbed 1.7% following a 0.3% increase in 2015. The Consumer Price Index, which measures what consumers pay for both goods and services, increased 0.3% in December, and 2.1% since December 2015 — the largest 12-month increase since the 12-month period ended June 2014. Core prices (CPI less food and energy) rose 0.2% for December and are up 2.2% year-over-year. Energy prices have increased 5.4% for the year — well above the Fed's target inflation rate of 2.0%. Retail sales inched up only 0.2% in December excluding auto sales. Sales for nonstore (online) retailers jumped 1.3% for December and were up 13.2% from December 2015.
- **Housing:** Lack of inventory has slowed sales of new and existing homes in December. Existing home sales dropped 2.8% following a 0.7% increase in November. December's sales pace is 0.7% above the rate for December 2015. The median sales price for existing homes in December was $232,200, down from November's median price of $234,900 but 4.0% higher than the median sales price for December 2015. Total housing inventory at the end of December decreased 10.8% to 1.65 million existing homes available for sale, which is 6.3% lower than a year ago (1.76 million). The Census Bureau's latest report reveals sales of new single-family homes dropped 10.4% in December to an annual rate of 536,000 — down from November's rate of 598,000. The median sales price of new houses sold in December was $322,500, while the average sales price was $384,000. The seasonally adjusted estimate of new houses for sale at the end of December was 259,000. This represents a supply of 5.8 months at that sales rate.
- **Manufacturing:** The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) increased 0.8% in December, bolstered by a surge in utility output (6.6%). The index fell 0.7% in November. On the plus side, manufacturing output increased 0.2%, while mining production remained unchanged. Capacity utilization for the industrial sector climbed 0.6 percentage point in December to 75.5%, a rate that is 4.5 percentage points below its long-run (1972-2015) average. Overall, total industrial production in December was 0.5% above 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) fell 0.4% in December, following a 4.8% decrease in November. Excluding the volatile transportation segment, new orders increased 0.5%. Orders for nondefense capital goods increased $10.2 billion, or 0.8%, and shipments rose 1.4% after a 0.3% November increase.
- **Imports and exports:** The advance report on international trade in goods for December revealed that the trade gap narrowed to $65.0 billion from $65.3 billion in November. Exports of goods rose $3.7 billion, while imports rose $3.4 billion. According to the Bureau of Labor Statistics, import prices advanced 0.4% in December, following a 0.2% decline the previous month. The advance in December was primarily driven by higher fuel prices. Export prices increased 0.3% for December — the largest increase since export prices climbed 0.8% in June. Prices for overall exports rose 1.1% for the year

ended in December, the first 12-month increase since the index advanced 0.4% in August 2014 and the largest over-the-year rise since a 1.5% increase in February 2013.

- **International markets:** Despite June's Brexit vote, the UK's economy grew during the latter part of 2016 as its GDP expanded by 0.6% for the fourth quarter, tantamount to an annualized rate of 2.4%. China's fourth-quarter GDP expanded at a rate of 6.8% following three straight quarters of 6.7% growth. Most of its growth is based on a strong export sector, which may be impacted by U.S. trade policy under President Trump.
- **Consumer sentiment:** Consumers' confidence in the economy strengthened in December. The Conference Board Consumer Confidence Index® jumped 6.6 points to 113.7 — the highest reading since August 2001. The strong reading was bolstered by high consumer expectations, which saw more jobs ahead and higher wages on the horizon. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment climbed 0.2 percentage point to 98.2. Both reports evidenced growing consumer expectations for the economy following the election in November.

Eye on the Month Ahead

The stock market climbed following the presidential election. January saw the Dow reach 20000 for the first time in its history. The FOMC meets during the first week of February, and while indications are that interest rates will be increased throughout the year, it is unlikely that the Fed will raise the federal funds rate at this meeting.

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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