U.S. EQUITIES

U.S. equity markets posted moderate gains last week as the Fed raised interest rates as expected, and investors awaited further news regarding the Affordable Care Act, tax legislation and the European elections.

a) **Dow Jones +0.08% MTD +0.61% YTD +6.47%** b) **S&P 500 +0.28% MTD +0.73% YTD +6.72%**
c) **Russell 2000 +1.97% MTD +0.45% YTD +2.79%**

Drivers: I) The **Federal Reserve** last Wednesday **raised a key short-term interest rate** for the second time in three months, but in a sign of caution, the central bank maintained its forecast for just **two more rate hikes** this year. The bank highlighted steady U.S. growth, an improving labor market and greater confidence among consumers and businesses to justify its decision to raise its fed funds rate to a range of 0.75% to 1.0%.

II) The Fed also noted a recent jump in prices has resulted in **inflation "moving close" to its 2.0% target**, another critical component in its decision. The bank's preferred inflation monitor, the PCE index, rose at a 1.9% rate in the 12-month period ended in January, more than double the rate seen as recently as last summer. The Fed also acknowledged that **higher oil prices** were largely behind the recent increase in inflation.

III) The **index of consumer sentiment rose to 97.6** in March from 96.3 in February, based on a preliminary reading from the University of Michigan. Economists had forecast a reading of 98. Two months ago, the index rose to its **highest level since 2004**, largely because of confidence among Republicans and independents. A gauge that examines what they expect in the next six months climbed to 122.4, a level that typically signals a "new era of robust economic growth."

IV) The Conference Board reported its **leading economic index rose 0.6%** in February, the third straight gain of that magnitude, to reach its **highest level in** more than a **decade.** Widespread gains across a majority of the leading indicators point to an improving economic outlook for 2017, although GDP growth is likely to remain moderate as Q1 is projected to come in at less than 2.0%.

V) **Equity prices in March are higher with Large-Cap, Growth, Information Tech and Consumer Discretionary leading equity price performance. The laggards for the month are Mid-Cap, Value Stocks and REITs.**

Capitalization: **Large Caps +0.67%** (YTD +6.67%), **Mid-Caps +0.11%** (YTD +5.42%) and Small Caps +0.45% (YTD +2.79%). Style: **Value -0.11%** (YTD +2.33%) and **Growth +0.65%** (YTD +4.89%). Industry Groups (Leaders): **Consumer Discretionary +3.26%** (YTD +13.90), **Information Technology +2.29%** (YTD +11.90%), Technology +2.25% (YTD +10.85%), Healthcare +0.70% (YTD +9.55), Consumer Staples +2.26% (YTD +8.57%), Utilities -0.29% (YTD +6.28%), Materials +0.51% (YTD +5.85%), Financial Services +0.21% (YTD +5.64%) and **REITs -2.67%** (YTD +1.80%). (Laggards): Telecommunication +1.58% (YTD -1.39%) and Energy -1.57% (YTD -6.67%).

EUROPEAN EQUITIES

The MSCI Europe index rose by +2.29% last week, climbing to its highest level in more than a year, helped by a rally in mining shares and after Dutch voters rebuffed Geert Wilders's far-right party in a general election.

Drivers: I) **Dutch Prime Minister Mark Rutte's** center-right People's Party for Freedom and Democracy **gained the most votes**, putting Rutte in a strong position to form a new ruling coalition. Rutte achieved his goal of finishing ahead of anti-Islam candidate Geert Wilders, whose Party for Freedom wants to halt Muslim immigration and leave the European Union. The Dutch election has drawn unusually high global attention as a bellwether for Europe's string of major elections this year, including in France, Germany and potentially Italy.

II) The **Bank of England** last Thursday **left its key interest rate at a record low 0.25%,** meeting widely held expectations. The vote to hold the rate steady was 8-1, with board member Kristen Forbes backing a rate increase. The central bank left unchanged the size of its asset purchase program at £435 billion ($533 billion) and its corporate-bond purchase program at £10 billion. The central bank expects U.K. inflation to rise above 2% over the next few months.

III) **Performance of European Indexes for the week, month-to-date and year-to-date. The MSCI Europe Index was higher by +2.29% for the week (MTD +3.54% YTD +6.96%).**

ASIAN EQUITIES

Asian markets were mostly higher last week following indications the Federal Reserve was going to maintain a measured pace in raising interest rates. The Dow Jones Asia Pacific Index was higher by +2.49% for the week, (MTD +2.06% YTD +9.93%).

Drivers: I) **Industrial production in China expanded 6.3%** in the first two months of 2017 from a year earlier, accelerating from 6.0% growth in December, data from the National Bureau of Statistics showed Tuesday. Value-added industrial output, a rough proxy for economic growth, exceeded a forecast for a 6.1% expansion by economists polled by The Wall Street Journal. Month-on-month, industrial production increased 0.6% in February, compared with a 0.46% rise in December.

II) **China's retail sales had their slowest increase in 11 years**, with a 9.5% rise in the two-month period, according to the National Bureau of Statistics, compared with a 10.9% increase in December. The retail-sales report "suggests that final demand is not as strong as people expect," said BBVA Research economist Xia Le. That combined with expectations that momentum from the stimulus and a still-growing property market will fade in coming months, prompting predictions that **growth could weaken** in the second half of the year.

III) **Performance of Asian Indexes for the week, month-to-date and year-to-date. The Nikkei was lower by -0.42% (MTD +2.11% YTD +2.13%), the Hang Seng Index rose by +3.15% (MTD +2.36% YTD +10.50%) and the Shanghai Composite advanced by +0.77% (MTD -0.13% YTD +4.31%).**

FIXED INCOME

Treasury yields posted a weekly decline after the Federal Reserve last Wednesday failed to signal a more aggressive approach to future interest rate moves.

Performance: I) **The 10-year Treasury yield was lower last week ending at 2.502% down from 2.577%. The 30-year yield fell last week dropping from 3.164% to 3.110%.**

II) **Performance for the week, month-to-date and year-to-date. Barclays US Aggregate Bond was up +0.50% last week, MTD -0.71% and YTD +0.15%. The Barclays US MBS TR was higher by +0.50% last week, MTD -0.57% and YTD -0.13%. The Barclay's US Corporate HY Index rose by +0.22%, MTD -0.88% and YTD +1.97%.**

COMMODITIES

The DJ Commodity Index was up last week by +1.02% but is down month to date -2.01% (YTD -2.25%) led by rise in gold which rallied on a weaker USD, and industrial metals copper and nickel due to expected rises in demand.

Performance: I) The price of **oil was higher last week** rising +0.68% to $48.72 but is lower month to date -9.79% (YTD -9.59%). Oil posted its first weekly price gain in three, despite the number of active U.S. drilling rigs continuing their weekly streak of increases. The rig count news was slightly tempered by the report that **domestic crude stockpiles fell** for the first time in 10 weeks.

II) The **ICE USD Index**, a gauge of the U.S dollar's movement against six other major currencies, **was negative,** falling -1.05% from 101.38 to 100.31 for the week (MTD -1.04% YTD -2.02%). The U.S. dollar index was down last week but stabilized Friday after hitting five-week earlier lows, a move that followed the guardedly optimistic economic view from the Fed this week and concern a Group of 20 meeting could stir protectionist trade developments.

III) **Gold rallied strongly last week** as weakness in the U.S. dollar, following Wednesday's Federal Reserve decision, provided a springboard for gains. For the week gold was higher by +2.02% climbing from $1204.5 to $1228.9 (MTD -1.99% YTD +6.67%).

HEDGE FUNDS

Hedge fund returns in March are primarily lower with the core strategies Event Driven, Distressed, Macro and Relative Value all in negative territory, while Equity Hedge is up for the month.

Performance:

I) **The HFRX Global Hedge Fund Index is higher at +0.11% MTD and +1.74% YTD.**
II) **Equity Hedge has risen +0.96% MTD and is up +3.00% YTD.**
III) **Event Driven is down MTD -0.11% and is higher YTD +2.51%.**
IV) **Distressed Debt is lower at -1.10% MTD and is positive YTD +1.41%**
V) **Macro/CTA has fallen by -0.43% MTD and is down -0.22% YTD.**
VI) **Relative Value Arbitrage is lower at -0.20% and is up +1.05% YTD.**

ECONOMIC DATA WATCH AND MARKET OUTLOOK

Looking ahead to next week, **investors have been awaiting a market correction** to buy in at lower prices, but this opportunity may be elusive if the current market uptrend continues. Market participants have been waiting for a drop of 5.0% or more, but the market has managed to grind higher. So far, the **S&P 500 has rallied higher for 182 trading days without a 5.0% decline**, the longest such streak since Feb. 11, 2004, according to Dow Jones data. Over those 182 days, the S&P 500 has gained nearly 19.0%.

The last time the S&P 500 had a **5.0% pullback was June 27, 2016**, when the index fell 5.6% over a period of 13 sessions. Before that, the index dropped 13.3% from Nov. 3, 2015, to Feb. 11, 2016, or over a period of 68 sessions. Since the beginning of the bull market, excluding the current run of trading days without a pullback of 5.0% or more, the **S&P 500 has averaged going about 56 sessions before it pulls back 5.0%** or more, based on Dow Jones data. With the Fed already raising rates last week, and stating their intention of two more rate hikes for 2017, it may take an extraordinary unexpected event that will trigger the next major sell-off.

On the **economic data front**, the frantic pace of the prior week follows with a calmer one that will, however, be highlighted by **key updates for housing and manufacturing**. FHFA house prices, which have been solid, open Wednesday's calendar which also includes existing home sales which had been firm though a pullback is projected for February's report. Solid and predictable gains have been the rule for the FHFA house price index where the consensus is calling for a **sizable 0.5% for January**. Year-on-year, this index has been running above the 6.0% rate in one of the best and most consistent economic performances on the calendar.

New home sales had been solid before a January speed bump that is expected to be reversed in Thursday's report. New home sales looked to be one of the economy's best strengths before fading at year-end and posting a very soft January. **New home sales in February are expected to rebound**, to a consensus 565,000 million annualized rate in what would be a very solid 1.8% from January's 555,000. But this report is known for its month-to-month volatility which puts the focus on the 3-month average which, however, has also been waning.

The week's spotlight will be on **Friday's durable goods report**, providing the latest on a factory sector where the outlook is on the rise following February's strength in industrial production. Last week's industrial production report offered the first definitive confirmation of acceleration in the manufacturing sector, and **durable goods orders are expected to further confirm the strength**. Durable goods are seen jumping 1.5% after January's 1.8% gain. Excluding transportation equipment, orders are expected to post a sizable 0.8% February gain and more than reverse the prior month's 0.2% decline.