QUARTER ENDING **MARCH 31, 2017**

MarketUpdate

Markets continue strong start to year

Despite mixed results for March, U.S. equity markets had a very strong first quarter. The Dow Jones Industrial Average lost 0.60 percent for the month, though the S&P 500 Index and Nasdaq gained 0.12 percent and 1.57 percent, respectively. For the quarter, the Dow returned 5.19 percent, the S&P 500 was up 6.07 percent, and the Nasdaq climbed 10.13 percent. Technical factors remained positive for all three during the month and quarter.

Strong U.S. stock market performance was due to continued economic growth and consequent earnings improvements. Per FactSet, as of March 31, the estimated average earnings growth rate for the S&P 500 during the quarter is 9.1 percent.

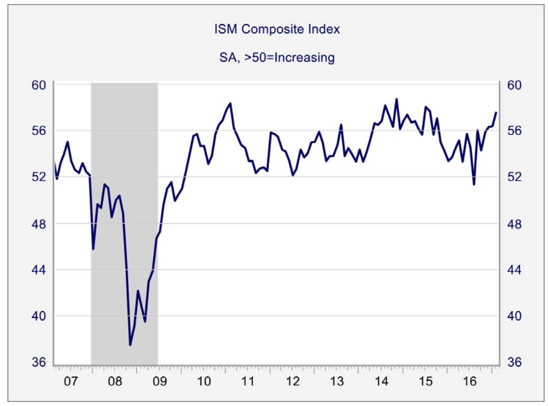
International equity markets also had a strong start to 2017. The MSCI EAFE Index returned 2.75 percent in March and 7.25 percent for the quarter, while the MSCI Emerging Markets Index gained 2.55 percent and 11.49 percent for the month and quarter, respectively. Technical factors were supportive for both indices.

Fixed income indices had a volatile first quarter, due largely to uncertainty surrounding whether the Federal Reserve (Fed) would increase the federal funds rate. It did, and the Bloomberg Barclays Aggregate Bond Index lost 0.05 percent for the month, though it gained 0.82 percent for the quarter. The Bloomberg Barclays U.S. Corporate High Yield Index declined 0.22 percent in March, but it was up 2.70 percent for the quarter.

Economy continues to improve as confidence increases

The fourth-quarter gross domestic product growth estimate was revised upward, to 2.1 percent. With a solid start to the year, and strong data since then, the economy continues to improve. The Fed acknowledged as much when it raised interest rates 0.25 percent; analysts expect two more rate hikes this year.

Figure 1. ISM Composite Index, 2007–2017



Source: Institute for Supply Management/Haver Analytics

Manufacturing and service sector confidence is about as high as it's been since 2011 (see Figure 1). The ISM Composite Index has risen steadily and is above 2007 levels. Additionally, durable goods orders are growing at a healthy pace, with headline orders beating expectations.

The major consumer confidence gauges are near highs last seen in the early 2000s, though personal consumption spending growth came in lower than expected in March. Much of the shortfall was due to abnormally warm temperatures, which lowered utilities spending by double digits. Although the high levels of consumer confidence and personal income growth suggest that spending is likely to rebound, this is something we need to keep an eye on.

Rising confidence supported by hard data

Jobs have grown much faster than expected in early 2017, and wage growth has improved.

Housing has also continued to grow, with home builder sentiment surprising to the upside. The National Association of Home Builders/Wells Fargo Housing Market Index surged in March to levels not seen since 2005. Existing home sales declined slightly because strong demand has eaten up supply.

Political headwinds diminishing

In the U.S., the Trump administration and Republican Congress have been slower to enact policy changes than expected, leaving expectations for further changes dampened.

In Europe, the success of moderates over nationalists in Dutch elections has calmed market concerns. Also, polls showing a likely win for French moderates, and the two-year Brexit process beginning without drama, have diminished other worries.

Though tensions have increased in Asia following North Korean missile testing, the U.S. and China are taking a less confrontational approach. The meeting between President Trump and China's President Xi in early April should help resolve some concerns.

Economy improving, headwinds diminishing

After a robust first quarter, the good news appears likely to continue. The economy is improving, and policy uncertainty may be subsiding. Additionally, as global growth resumes, we are in the first synchronized economic expansion since the financial crisis. The resilience of the U.S. economy and healthy performance of financial markets suggest that many risks have been priced in.

Still, risks remain. The biggest is that economic expectations will adjust down on weaker data, and that the improvement will roll over. Nevertheless, economic and market conditions are as supportive as they've been since 2008. Despite potential setbacks, a well-diversified portfolio that matches goals remains the best way to prepare for the future.

All information according to Bloomberg, unless stated otherwise.

Certain sections of this commentary contain forward-looking statements based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. All indices are unmanaged and investors cannot invest directly into an index. The Dow Jones Industrial Average is a price-weighted average of 30 actively traded blue-chip stocks. The S&P 500 Index is a broad-based measurement of changes in stock market conditions based on the average performance of 500 widely held common stocks. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. It excludes closed markets and those shares in otherwise free markets that are not purchasable by foreigners. The Bloomberg Barclays Aggregate Bond Index is an unmanaged market value-weighted index representing securities that are SEC-registered, taxable, and dollar-denominated. It covers the U.S. investment-grade fixed-rate bond market, with index components for a combination of the Bloomberg Barclays government and corporate securities, mortgage-backed pass-through securities, and asset-backed securities. The Bloomberg Barclays U.S. Corporate High Yield Index covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

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