



## February 2017

Market Index	February Change	Year-to-Date
Standard & Poor's 500	4.0%	5.9%
Dow Jones Industrial Average	5.2%	5.8%
NASDAQ	3.9%	8.4%
Russell 2000 (small company)	1.9%	2.3%
MSCI EAFE (international)	1.4%	4.4%
Barclays Aggregate Bond Index	0.7%	0.9%

## Monthly Update

### Stocks Rally on Trump's "Phenomenal" Comment

U.S. stocks surged in February, extending the rally that began last November to its fourth-consecutive month. Stocks were relatively flat early in the month, but then shot higher after President Trump promised something "phenomenal" in his forthcoming tax plan. The S&P 500 Index finished with its best monthly return since March of last year, gaining 4%. The strength was widespread, with only two of the eleven sectors posting a negative return. Stocks have experienced relatively few down-days over these four months, and any declines have been small. Through the end of February the Index has gained a whopping 25% over the last twelve months, and 11% since the election. The Dow Jones Industrial Average was the best-performing U.S. index in February, and on March 1st reached 21,000 just 24 days after crossing 20,000. The 24-day move ties a similar rally in May 1999 from 10,000 to 11,000 as the fastest 1,000-point rise ever. However, the 1999 move represented a 10% return, double the return of 5% from 20,000 to 21,000.

### More than a Trump Rally

The post-election rally is partially based on hopes of the economic benefits of lower tax rates, reduced regulation, and infrastructure investment. Those expectations and Trump's rhetoric have certainly pushed stocks higher, but there are other more concrete supports that have contributed to the move as well. This has been reflected in the market's resilience in the face of concerns about the lack of policy details and doubts about the likelihood of reform to tax policy, health care, trade policy, immigration, etc.

Economic data and earnings growth have both undergirded the rally in stocks. Economic indicators are showing the economy is on solid footing, and earnings growth estimates are healthy even without baking in the benefit of lower corporate tax rates. Consumer and business confidence are riding high as a result of rising home and stock prices. Wages are rising, and unemployment claims have hit 40-year lows. The manufacturing sector has stabilized. In addition, energy prices remain at lower levels, cushioning consumer and business budgets. It is well-understood that the rate of growth is still relatively low overall. GDP growth has mostly hovered around 2% per year, but the progress the economy continues to make has been a support to the stock market throughout this bull market.

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## Monthly Update (continued)

### Rate Hikes are Likely to Come

The strength in the economy points to increasing odds of Fed rate hikes in 2017. The Fed considers a myriad of economic indicators in its decision-making process, but tends to focus most attention to inflation measures and the labor market. Both have reached levels that would indicate action is likely in the near-term, and Fed commentary has been telegraphing as much to the markets. There is widespread expectation of a rate hike announcement in March, with the possibility of up to two additional hikes as the year progresses. Still, rates remain extremely low relative to history, and the Fed has indicated it will be cautious about hiking rates too fast for fear of choking off the economic expansion. The current Fed Funds rate is 0.50%, and each hike would be a mere 0.25%. Bond yields are higher since the election, but have fallen slightly in 2017. This is a sign that there is at least some caution in the marketplace about the prospects for continued growth in 2017.

### Still More Questions than Answers

The outlook for the remainder of 2017 largely, but not fully, hinges on Washington. The early weeks of the new administration have exposed significant differences of opinion among Republicans. In addition, many of the details of Trump's agenda remain unclear. Tax policy, particularly the border-adjustment tax, has proven to be a divisive topic. The same is true of health care reform. The details will be critical, and while Trump is under the microscope, the House and Senate hold significant power when it comes to the actual passage of new law. The Senate in particular will be a key battleground in which the final shape of policy will be determined. A key dynamic to watch is how much both Trump and Republicans in Congress are willing to compromise in order to implement reform.

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