MARKET NOTES

Week of February 6, 2017

International Markets Still Leading the Performance Race

International equity markets have posted strong gains so far this year, outpacing the U.S. markets by approximately 2 percentage points. This outperformance comes as the U.S. dollar has retreated from its post-election highs. The dollar in January fell nearly 3% versus a trade-weighted basket of international currencies.

Year-to-Date Returns for International and U.S. Equities (through 2/3/17)

- S&P Global Ex US: 4.04%
- S&P 500: 2.77%

Often, interest rates fall when the dollar declines, but this has not been the case in 2017. U.S. interest rates are currently hovering at the same levels where they started 2017, with the 2-year U.S. Treasury note at 1.19% and the 10-year U.S. Treasury note at 2.45%.

The biggest piece of economic data last week was U.S. non-farm payrolls, which measures new job creation. In January, the U.S. created 227,000 new jobs—the largest gain in four months, and higher than analysts' expectations.

In addition, we are in the middle of earnings season. So far, corporate earnings could be described as strong overall, but not always supporting the post-election run that certain stocks and sectors have experienced in the wake of Trump's victory. It is important to keep in mind that none of the new administration's policies were put in place during the period currently being reported, the fourth quarter of 2016.

GAIN: Active Asset Allocation

Stocks traded in a relatively narrow range last week, with foreign stocks outperforming domestic stocks modestly.

In the U.S., growth stocks have outpaced value shares so far in 2017—driven in large part by the technology sector, which represents the largest component of the growth ETFs. Value stocks,

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led by financial services stocks, had a strong run at the end of 2016 but are now consolidating those gains somewhat. The GAIN equity portfolios currently are equally balanced between the growth and value styles.

Bonds were roughly flat for the week, and the aggregate bond market is flat for the year. However, high-yield bonds are up more than 1 percent year-to-date.

PROTECT: Risk Assist

Volatility came roaring back into the market this week—sort of. While the CBOE Volatility Index (VIX) jumped 15%, it went from 10.5 to 12. That's still significantly lower than its average of 16 over the past five years.

Meanwhile, measures of expected correlation of major equity indices also continue to be very low—a signal that individual security selection (a hallmark of active investment management) may have the potential to add value this year.

Risk Assist portfolios have been positioned to take advantage of rising markets for several months now, and have benefited as a result.

SPEND: Real Spend

The U.S. equity market lagged the bond market last week, but remains well ahead for the year thus far. Meanwhile, the relatively strong performance of international markets year-to-date has been beneficial for Real Spend portfolios, which increased their exposure to international equities early in 2017.

Meanwhile, inflation expectations moved lower. A comment posted by the Center of Economic Policy and Research noted that, "The latest data suggest that inflation might even be slowing rather than rising, indicating that there is no reason whatsoever for the Fed to weaken the labor market and slow job growth with further rate hikes."