



Week of May 22, 2017

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## Political Uncertainty Weighs on Stocks, Boosts Bond Prices

U.S. economic data released last week painted a mixed picture. Better-than-expected results in initial jobless claims and industrial production, and from the Federal Reserve Bank of Philadelphia's Manufacturing Business Outlook Survey, were offset by disappointing results in terms of housing starts, The Conference Board's index of leading U.S. economic indicators, and the Empire State Manufacturing Survey.

Internationally, Japan reported better-than-anticipated GDP growth for the first quarter, while Europe's economic reports were in line with expectations. The UK continues to generate economic results that beat estimates, including CPI (inflation) and PPI (producer prices).

U.S. equity markets were weighed down by political uncertainty. Shares of precious metals mining companies were the strongest performers for the week as global political concerns pushed prices of "safe haven" precious metals higher. Meanwhile, bank stocks underperformed as interest rates fell.

Developed international markets—including Europe and Japan—outperformed U.S. markets for the week driven by their strengthening economic data and currencies. Emerging markets in Latin America, specifically Brazil, underperformed for the week due to concerns about political uncertainty in Brazil.

In fixed income markets, long-duration sovereign debt outperformed other bond market sectors. International sovereign bonds performing particularly well. Emerging market debt underperformed on political turmoil in Brazil, while credit-focused bonds in the U.S. struggled.

## GAIN: Active Asset Allocation

Equity markets were more volatile last week than they have been for the rest of 2017 so far, as U.S. political uncertainty raised concerns about the Trump administration's ability to implement its economic policies. For the week, U.S. stocks lagged international markets, and growth outperformed value.

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In the fixed-income markets, Treasuries outpaced corporate credits as nervous investors favored the relatively safety of government-backed bonds.

### **PROTECT: Risk Assist**

Volatility returned to the market last week, with the S&P 500 on Wednesday suffering its worst one-day performance (-1.8%) since September due to political uncertainty in Washington D.C. We recently shifted some assets in the portfolios to utilities, which was one of the top-performing sectors for the week. Overseas, developed international markets outperformed emerging markets.

### **SPEND: Real Spend**

While stocks generally faltered last week, Real Spend portfolios' allocation to dividend-paying stocks contributed to performance, as these stocks outperformed the broad market due largely to falling interest rates.

Keep in mind that Real Spend's allocations are designed to pursue below-average volatility and above-average yield, both of which can be beneficial during volatile market environments.

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