



Week of February 13, 2017

Global Growth Strengthens and Volatility Remains Low

The U.S. economic recovery that began roughly eight years ago continues to demonstrate surprising strength, according to data released last week.

Most notably: Initial jobless claims--the number of Americans who applied for unemployment benefits—fell by 12,000. New jobless claims now stand at 234,000—their second-lowest level since the economic recovery began. In addition, jobless claims have remained below 300,000 for 101 consecutive weeks—the longest such run in more than 40 years.

Overseas economies are also seeing stronger-than-anticipated growth. Last week, for example, data showed German factory orders in December rose at their fastest pace since 2014, while Japanese machine orders came in better than expected.

Meanwhile, corporate earnings season continued in the U.S. Last week, the sectors that posted the largest upside earnings surprises were financials, materials and real estate.

GAIN: Active Asset Allocation

Stocks gained ground last week in the wake of strong economic data, with domestic stocks outpacing foreign markets. The U.S. dollar also rose, which benefited small-cap and currency-hedged European positions.

Volatility remained low, as most investors appear to be comfortable with the market's "rally mode" of late. The pro-growth outlook is prompting more investors to move money out of cash and into equities.

Interest rates fell last week, pushing Treasury bond prices higher. However, corporate bonds continue to keep pace with Treasuries, pushing many investors to lower credit qualities and short durations for relatively higher yields.

continued on next page >

PROTECT: Risk Assist

Equity markets continued to exhibit historically low realized volatility levels last week, with 3-month S&P 500 volatility hovering below 7% for the first time in 20 years. Given these conditions, our strategy within the Risk Assist portfolios has not changed and we continue to be positioned to capture the upside potential in global equities and fixed-income.

SPEND: Real Spend

Fixed-income markets bounced back last week, ending relatively flat (as did U.S. equity markets). International equity markets experienced minor losses.

Market expectations for inflation were also flat for the week, trading in a narrow range.

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