MARKET NOTES

Week of February 27, 2017

A Mixed Week as Investors Look for Clues from the Fed

Last week, we saw relatively weak economic data in the U.S. For example, a key gauge of manufacturing activity fell in February—with lower readings for new orders, backlogs and output. Likewise, activity in the services sector also dipped for the month.

Overseas, European economic indicators continued to show improvement—with both the manufacturing and services PMI readings coming in better than expected. Germany's economy led the way, with Germany's Ifo Institute survey—a forward-looking indicator that assesses business conditions—showing better-than-anticipated results for February.

Meanwhile, minutes from the Fed's most recent policy meeting, released last week, revealed that several Fed officials stated it "might be appropriate to raise the federal funds rate again fairly soon"—perhaps as early as the next meeting in March, depending on inflation and labor market conditions

GAIN: Active Asset Allocation

Stocks were mixed last week, with domestic markets outperforming international markets. Europe and Japan continue to be the weak links among global markets, as stocks in those regions face more headwinds than those in the U.S. and emerging markets. We continue to underweight Japan, in particular, while favoring emerging markets.

Interest rates fell last week. Our corporate credit holdings held up well, but weakness in our short duration holdings offset those gains. We remain overweight both corporate bonds and shorter duration securities.

PROTECT: Risk Assist

Once again, we saw a muted week as global markets continued to grind higher. The Risk Assist portfolios continued to be positioned to participate in those market gains.

continued on next page >

From a risk perspective, there is a fairly large amount of risk being priced into European assets due to the upcoming elections in France. However, there is virtually no risk being priced into U.S. assets. We continue to believe that the risk of these elections is currently being overstated by investors.

SPEND: Real Spend

Recently we noted the sharp year-over-year increase (2.5%) in "headline" consumer price index inflation, which includes the more volatile components of inflation such as food and energy.

However, the minutes from the Fed's latest meeting (released last week) show that Fed officials are more concerned with keeping inflation as measured by the personal consumption expenditures index at around 2 percent. The PCE index tracks just those goods purchased by consumers, and can therefore deviate from CPI inflation data. The latest PCE index data will be released this Wednesday, and expectations are for a 1.8% increase during the 12 months through January.

Both equity and fixed-income markets were relatively flat last week. So far this year, international equities have performed best—although the performance gap (or spread) between domestic stocks and international stocks has shrunk as of late.