

Weekly Update

Interest Rates to Spring Forward?

As of March 10, 2017



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The Economy

- The U.S. economy added 235,000 jobs in February, far exceeding the expected 200,000, led by construction and manufacturing. Unemployment declined by 0.1% to 4.7%, and average hourly wages grew by a modest 0.2%. The strong overall report increases the likelihood of an interest-rate hike at next week's Federal Reserve (Fed) meeting.
- Private sector employment had the biggest monthly gain in nearly three years, reported payroll processor ADP, with the addition of 298,000 positions. Business services and construction contributed most, each expanding by 66,000 jobs.
- Factory orders grew by 1.2% in January, led by civilian and defense aircraft. Core capital-goods orders weakened by 0.1% as business investment continued to struggle. Shipments and wholesale inventories both rose by 0.2%.
- The trade deficit widened from a revised \$44.3 billion in December to \$48.5 billion in January, the largest gap in nearly five years. Imports jumped 2.3%, while exports grew by 0.6%.
- The second estimate for fourth-quarter productivity growth matched the previous quarter rate of 1.3%, making 2016 the worst calendar-year performance in five years despite a 0.2% upward revision in manufacturing. Compensation growth slowed to 3% from an initial 4.1% estimate, while labor costs rose 1.7%.
- Initial jobless claims jumped from a 44-year low recorded in the previous week, expanding by 20,000 to 243,000 in the week ending March 4, yet remained at a level consistent with strong labor demand. The four-week-moving average, which smooths out volatility in the weekly reading, rose by 2,250 to 236,500, keeping near a 40-year low. Continuing claims for the week ending February 25 declined by 6,000 to 2.058 million.
- Import prices grew by 0.2% in February, lifting year-over-year prices by 4.6% — the highest annual growth in five years. This reading could support Fed's case for raising rates later this month. Export prices inched up 0.3% for the month and 3.1% year over year, the best annual growth since December 2011. The European Central Bank (ECB) left interest rates unchanged despite inflation topping its target for the first time in four years. The central bank also confirmed the reduction of its monthly asset-purchase program from €80 billion to €60 billion beginning in April; ECB President Mario Draghi expressed optimism about its monetary policy despite estimates for eurozone gross domestic product (GDP) expanding by at an unrevised 0.4%.
- China reported a \$9.2 billion trade deficit in February, a far cry from the anticipated \$25.8 billion surplus. The Lunar New Year holidays were cited as the reason for an unexpected decrease in exports.
- Japan's fourth-quarter GDP grew by 1.2%, its fourth consecutive quarterly gain. Capital expenditures moved 2% higher, while household consumption was flat.

U.S. Economic Calendar

- March 14: Producer Prices
- March 15: Consumer Prices, FOMC Announcement, Mortgage Applications
- March 16: Housing Starts, Jobless Claims, Philly Fed
- March 17: Consumer Sentiment, Industrial Production

Stocks

- Global equities were lower this week. Developed markets outperformed emerging markets.
- Most U.S. sectors were lower for the week. The information technology and healthcare sectors outperformed, while energy and utilities lagged. Growth stocks outpaced value stocks, as large-company stocks led their small-company counterparts.

Bonds

- Global bonds declined this week. Global government bonds outperformed, while high-yield and corporate bonds lagged.
- U.S. Treasury yields rose this week, as the Treasury market banked on a possible Fed rate hike next week.

| The Numbers as of March 10, 2017 | 1 Week | YTD | 1 Year | Friday's Close |
|---|--------|-------|--------|-------------------|
| Global Equity Indices | | | | |
| MSCI ACWI (\$) | -0.7% | 5.1% | 15.1% | 443.2 |
| MSCI EAFE (\$) | -0.5% | 3.8% | 8.4% | 1747.9 |
| MSCI Emerging Mkts (\$) | -0.9% | 7.0% | 16.7% | 922.9 |
| US & Canadian Equities | | | | |
| Dow Jones Industrials (\$) | -0.5% | 5.8% | 23.0% | 20903.0 |
| S&P 500 (\$) | -0.4% | 6.0% | 19.2% | 2372.5 |
| NASDAQ (\$) | -0.2% | 8.9% | 25.7% | 5861.7 |
| S&P/ TSX Composite (C\$) | -0.7% | 1.4% | 15.8% | 15494.4 |
| UK & European Equities | | | | |
| FTSE All-Share (£) | -0.3% | 3.2% | 20.6% | 3996.6 |
| MSCI Europe ex UK (€) | 0.0% | 4.1% | 13.4% | 1259.8 |
| Asian Equities | | | | |
| Topix (¥) | 1.0% | 3.6% | 16.4% | 1574.0 |
| Hong Kong Hang Seng (\$) | 0.1% | 7.1% | 17.9% | 23568.7 |
| MSCI Asia Pac. Ex-Japan (\$) | -0.1% | 8.1% | 15.6% | 461.2 |
| Latin American Equities | | | | |
| MSCI EMF Latin America (\$) | -3.2% | 7.8% | 23.0% | 2522.4 |
| Mexican Bolsa (peso) | -0.6% | 3.2% | 6.3% | 47119.8 |
| Brazilian Bovespa (real) | -3.1% | 7.4% | 30.5% | 64694.9 |
| Commodities (\$) | | | | |
| West Texas Intermediate Spot | -9.1% | -9.7% | 28.1% | 48.5 |
| Gold Spot Price | -2.1% | 4.2% | -5.6% | 1201.7 |
| Global Bond Indices (\$) | | | | |
| Barclays Global Aggregate (\$) | -0.6% | -0.2% | -1.7% | 450.4 |
| JPMorgan Emerging Mkt Bond | -1.0% | 2.3% | 9.1% | 755.9 |
| 10-Year Yield Change (basis points*) | | | | |
| US Treasury | 10 | 13 | 64 | 2.58% |
| UK Gilt | 5 | 0 | -31 | 1.23% |
| German Bund | 13 | 28 | 18 | 0.48% |
| Japan Govt Bond | 1 | 4 | 11 | 0.09% |
| Canada Govt Bond | 11 | 9 | 52 | 1.82% |
| Currency Returns** | | | | |
| US\$ per euro | 0.6% | 1.6% | -4.4% | 1.069 |
| Yen per US\$ | 0.6% | -1.9% | 1.4% | 114.73 |
| US\$ per £ | -0.9% | -1.3% | 14.7% | 1.218 |
| C\$ per US\$ | 0.6% | 0.1% | 0.8% | 1.346 |
| Source: Bloomberg. Equity-index returns are price only, others are total return. *100 basis points = 1 percentage point. **Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD. | | | | |

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