

Weekly Update

Dow Heats Up, Growth Cools Off

As of January 27, 2017



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The Economy

- Fourth-quarter gross domestic product grew by an annualized 1.9%, led by residential and business investment. Personal expenditures also contributed, but by less than in previous quarters. Net exports detracted.
- Markit's preliminary U.S. manufacturing purchasing managers' index (PMI) estimate improved by more than expected in January, the best reading since March 2015. Production, new orders, purchasing activity and inventories advanced, while export orders were flat.
- New-home sales plunged 10.4% in December. The three-month moving average (which smooths out monthly volatility in the reading) fell by 0.2%, while the year-over-year reading slid into negative territory at -0.4%.
- Existing-home sales fell by a sharper-than-projected 2.8% in December. Sales remain constrained by a shortage of inventory; according to the National Association of Realtors, supply is at the lowest level since 1999.
- Durable-goods orders declined by an unexpected 0.4% in December following a significant drop in defense-related orders. Excluding defense, orders grew by 1.7%, and nondefense capital-goods orders excluding aircraft (a gauge for business investment) rose by 0.8% (the third consecutive monthly increase).
- The international trade deficit was unchanged in December, as strong auto, capital-goods and industrial-supply imports balanced growth in capital-goods exports (which points to improvement in global business investment).
- Initial jobless claims increased by 22,000 to 259,000 for the week ending January 21; continuing claims also jumped, by 41,000 to 2.1 million for the week ending January 14. Although both readings moved higher than expected, they remain consistent with a strong labor market.
- The University of Michigan's consumer sentiment reading reached a 13-year high in January, thanks to ongoing optimism about post-election fiscal policies and their impact on economic growth. A high level of confidence tends to boost consumer spending, which drives over two-thirds of the economy.
- The U.K. economy expanded by 0.6% during the fourth quarter, and 2.2% for the year over year. Consumer-related industries (such as retail sales and travel agencies) contributed, as did hotels and restaurants. Industrial production was flat.
- Japanese manufacturing had the biggest monthly gain in three years this January, according to preliminary PMI estimates, driven by output and new-order growth. Price pressure also grew to the highest level since March 2015 — good news for the country's ongoing struggle with deflation.

U.S. Economic Calendar

- January 30: Personal Income and Outlays
- January 31: Case-Shiller Home Prices, Consumer Confidence
- February 1: ISM Manufacturing, FOMC Announcement
- February 2: Jobless Claims, Productivity and Costs
- February 3: Employment Situation, Factory Orders

Stocks

- Global equities advanced this week. Emerging-market equities led developed markets by a considerable distance.
- U.S. sectors were mixed for the week. Materials outperformed while telecommunications lagged. Growth stocks led value stocks and small-company stocks outperformed their large-company counterparts.

Bonds

- Global bond markets were essentially flat this week. Global high-yield bonds outperformed, followed by global corporate bonds, while global government bonds lagged.
- U.S. Treasury yields rose this week ahead of the Federal Open Market Committee announcement on February 1.

The Numbers as of January 27, 2017	1 Week	YTD	1 Year	Friday's Close
Global Equity Indices				
MSCI ACWI (\$)	1.3%	3.3%	18.6%	436.0
MSCI EAFE (\$)	1.2%	3.3%	10.5%	1739.5
MSCI Emerging Mkts (\$)	2.6%	6.3%	26.9%	916.7
US & Canadian Equities				
Dow Jones Industrials (\$)	1.3%	1.7%	25.0%	20093.8
S&P 500 (\$)	1.0%	2.4%	21.1%	2293.4
NASDAQ (\$)	1.9%	5.2%	25.6%	5660.8
S&P/ TSX Composite (C\$)	0.1%	1.8%	23.6%	15563.4
UK & European Equities				
FTSE All-Share (£)	-0.1%	0.6%	19.6%	3897.5
MSCI Europe ex UK (€)	1.0%	1.7%	10.4%	1231.8
Asian Equities				
Topix (¥)	1.0%	2.0%	11.3%	1549.3
Hong Kong Hang Seng (\$)	2.1%	6.2%	21.7%	23360.8
MSCI Asia Pac. Ex-Japan (\$)	1.9%	6.2%	21.9%	453.0
Latin American Equities				
MSCI EMF Latin America (\$)	3.2%	8.2%	52.0%	2532.6
Mexican Bolsa (peso)	2.5%	4.0%	12.0%	47478.0
Brazilian Bovespa (real)	2.3%	9.6%	70.9%	66034.0
Commodities (\$)				
West Texas Intermediate Spot	1.4%	-1.0%	60.1%	53.2
Gold Spot Price	-1.4%	3.1%	6.5%	1188.7
Global Bond Indices (\$)				
Barclays Global Aggregate (\$)	0.0%	0.2%	1.2%	452.3
JPMorgan Emerging Mkt Bond	0.1%	1.2%	12.0%	747.7
10-Year Yield Change (basis points*)				
US Treasury	2	4	51	2.49%
UK Gilt	4	23	-20	1.47%
German Bund	4	26	6	0.46%
Japan Govt Bond	2	4	-15	0.08%
Canada Govt Bond	3	6	54	1.78%
Currency Returns**				
US\$ per euro	-0.1%	1.7%	-2.2%	1.070
Yen per US\$	0.4%	-1.6%	-3.1%	115.11
US\$ per £	1.4%	1.7%	-12.6%	1.255
C\$ per US\$	-1.4%	-2.2%	-6.3%	1.314

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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