Macroeconomic Overview

United States	Price		Day	Week	Month	Year
Dow Jones	20814	▲ 4	0.02 %	2.73%	5.14%	26.86%
S&P 500	2367	▲ 3	0.13 %	0.69%	3.00%	21.30%
NASDAQ 100	5342	▲ 10	0.18 %	0.35%	3.72%	25.99%
NASDAQ	5845	▲ 10	0.17 %	0.12%	3.34%	27.57%
Russell 2000	1395	▼ 0	-0.01 %	-1.12%	0.87%	35.18%
S&P VIX	11.47	▼ 0.24	-0.24%	-0.02%	0.66%	-7.64%

Domestic

This past week we continued to see strength in the equity markets driven in part by growing confidence with improving economic conditions and business friendly fiscal policy. Capital is flowing into passively managed funds as investors are gearing up for an economic expansion. The belief is that the overall market will, on average, outperform actively managed funds. Janet Yellen's testimony pointed to another increase in the federal funds rate in May and markets reacted positively with the Dow continuing its climb upwards. Typically, a raise in interest rates would cause markets to dip but investors are focused on the potential economic growth that would result in the Fed having to tighten monetary policy to control inflation. The VIX continues to fall as positive investor confidence has limited market volatility and pushes major indexes to new highs day after day. Looking forward, investors are waiting for the Fed to follow through with raising rates relatively soon and continued increase in the 3 month LIBOR rate. Also, we want to see an increase in loan activity especially business lending and an increase in the labor force participation. As for fiscal policy, we must wait until the renegotiations of trade agreements are complete and further information on new corporate and individual tax rates.

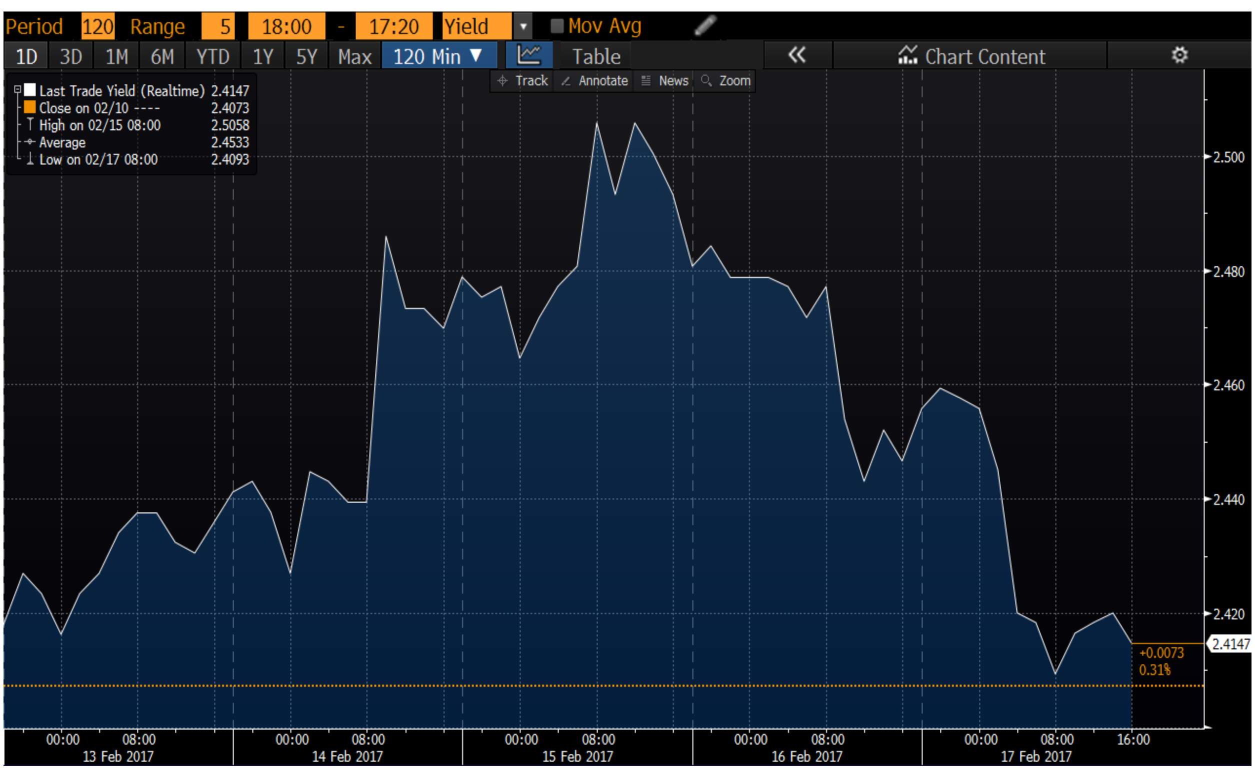
Foreign Markets

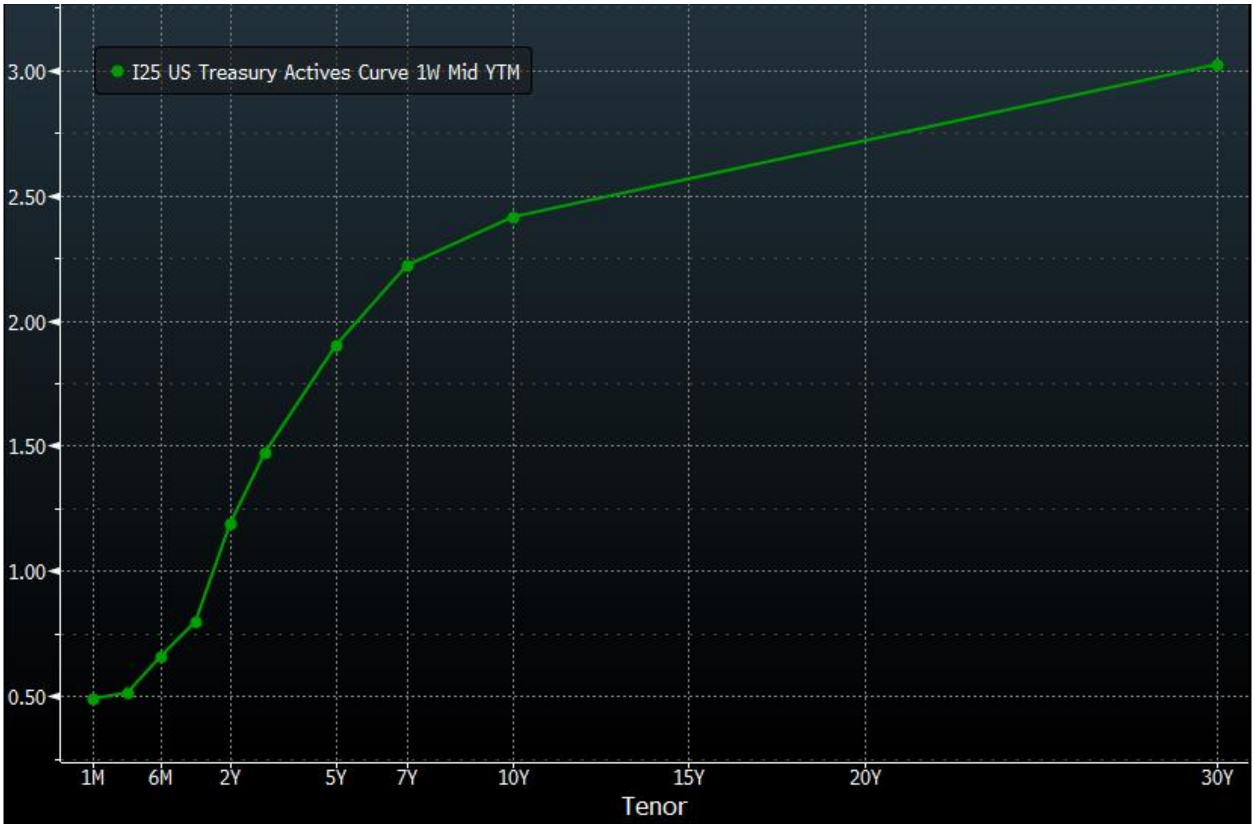
FTSE 100	7263	▼ 6	-0.08 %	-0.77%	1.11%	20.47%
FTSE All	3939	▼ 14	-0.36 %	-0.78%	1.34%	19.35%
DAX	11838	▼ 109	-0.91 %	0.40%	-0.02%	26.50%
CAC 40	4863	▼ 28	-0.56 %	-0.46%	-0.66%	14.05%
FTSE MIB	18597	▼ 223	-1.18 %	-2.16%	-5.03%	8.72%
IBEX 35	9459	▼ 30	-0.32 %	-0.43%	-0.95%	15.14%

European markets have lost some steam on the week as the government debt issues in Greece, Spain, and Italy are increasingly becoming an issue for all of the Euro-zone. Although indices are up year over year, economic growth is still slow and uncertainty of Brexit and future trade agreements loom over the markets. ECB quantitative easing is expected to end in 2017 and if economic activity and inflation do not pick up then the will cause trouble in European markets. Interest rates are already at an unsustainably low level if government debt and unemployment don't increase then we don't expect any organic growth in the region. That does not mean that domestic growth cannot aid in European economic activity which is likely.

Bond Report

This past week, the main concern of the bond market was related to Janet Yellen's semiannual testimony regarding the Fed's monetary policy that was to take place on Tuesday. On Monday, yields rose higher, as the market deemed likely that the chairman of the Fed would not close the door to a Fed-Funds rate hike as soon as March. On Tuesday, two events contributed to a fourth straight day of Treasury yields increase. First, during her testimony, Janet Yellen actually confirmed that a March hike was still considered, surprising most of the market that estimated that a March increase was only 20% likely. As a matter of fact, she stated that the negative impact of waiting too long to raise interest rates was greater than those of not waiting long enough. Then, official data regarding producer-price growth showed that, over the last month, it had been accelerating at its fastest pace in almost 5 years. Yields being directly correlated to inflation, this information contributed to make them increase. On Wednesday, the main event was the release of the Consumer-Price Index data. It showed that, since January 2016, inflation has accelerated to as high as 2.5%, faster than expectations, and most importantly faster than the Fed's inflation target of 2%. This sent yields higher for a fifth straight day, and the 10-year yield went back above 2.5%, for the first time in almost three weeks. Also, Patrick Harker, chairman of Philadelphia Fed, confirmed the expectations of the market by stating that three interest rate hikes in 2017 were likely as long as the economy remains stable through the year. On the last two days of the weeks, U.S. Treasury yields were sent lower as the equity market retreated on both Thursday and Friday after weeks of records. Investors invested in assets considered as safe havens like Treasuries after this bullish run. In the same time, yields also dropped in major European markets as worries emerged regarding the growing influential power of populist parties in Eurozone member countries. Overall this week, while shorter term Treasury yields remained rather constant (2-year yield up by only 0.1 basis point), long-term Treasury yields advanced, as both 10-year and 30-year yields advanced by 1.6 basis point and 1.9 basis point respectively. These have shown increases in four of the past five weeks.





What's next and key events

Next week, as Monday is President's day, the first even to look for will take place on Wednesday, as Tuesday will be comprised mainly of speeches of local Fed chairmen like Patrick Harker. On that day, data about MBA (Mortgage Bankers' Association) Mortgage Application will be released. This indicator not only gives the general state of the housing market, but also gives indications about households' confidence. Last week, MBA applications had fallen by 3.7%. On Thursday, Initial Jobless claims numbers will be under scrutiny, as this indicator been below 240,000 new claims for the past two weeks, being the sign of a strengthening labor market. Current estimates for this week are 244,000, a 5,000 increase from last week. Finally, on Friday, the final Consumer Sentiment Index will be released, currently estimated at 95.7, almost 3 percentage points lower than a month ago, potentially due to the end of the post-election surge. However, this indicator is hard to read as it is highly polarized, Republicans and Democrats having different views on the economy.