



## THE WEEK IN REVIEW

U.S. employment gains surged in February, another sign of labor market strength that could further ease fears of a recession and allow the Fed to gradually increase interest rates this year. The U.S. economy produced a surprisingly strong 242,000 jobs last month, while the unemployment rate held steady at an eight-year low of 4.9%, according to the Labor Department. Job growth was up sharply from January's upwardly revised figure of 172,000. Improved job growth has put about 555,000 people back into the labor force, pushing the labor force participation rate up to 62.9%, the highest level since January 2015. While this figure is still historically low, it has now risen for three straight months. Despite the upbeat top-line figures, wages declined in February after a strong gain the previous month. The decline of three cents an hour in average earnings was the first since June and the largest since 2014. For the 12 months ended February 29, wages have increased 2.2%, well above the low inflation rate but off the annual pace recorded in the previous two months. This latest jobs report is the last significant collection of economic data before the Fed meets this month to determine whether to enact another small hike in interest rates.

Manufacturing was expected to be weak in February, and although the ISM manufacturing index came in below the breakeven level of 50 at 49.5, it was still a full point ahead of consensus expectations and January's level of 48.2. While the index has been contracting since September 2015, the new orders component remained unchanged at 51.5, and production is up to 52.8, the highest since August of last year. Exports declined to 46.5, the weakest since contraction began in September. The ISM non-manufacturing index rose to 53.4 in February, reflecting strength in much of the U.S. service sector. This reading was modestly ahead of analyst expectations of 53.0 and signals expansion in the industry. While the employment subindex fell 2.4 points to 49.7, the production subindex increased by 3.9 to 57.8.

Construction spending increased in January, coming in at 1.5%, or a seasonally adjusted annual rate of \$1.14 billion, well ahead of consensus expectations of around 0.2%. This is the highest one-month increase since October 2007. Gains in state and local spending rose 4.5%, possibly reflecting the weather-sensitive nature of the data.

Factory orders rose in January by 1.6%, below consensus expectations of 2.4% but still a strong reading. While the durable goods orders component rose 4.7%, there was a strong offset from energy-related weakness for non-durable goods, giving back 1.4%. Core capital goods, particularly machinery, fabricated metals, and computers, rose 3.4%, nearly offsetting the 3.5% decline in December. Shipments of these goods did decline 0.4%, further reflecting export weakness.

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	17,006.77	2.24%	-2.40%	-6.23%
NASDAQ	4,717.02	2.84%	-5.80%	-5.33%
S&P 500 LargeCap	1,999.99	2.61%	-2.15%	-4.81%
S&P 400 MidCap	1,399.20	4.23%	0.04%	-7.02%
S&P 600 SmallCap	664.31	4.22%	-1.11%	-6.07%
MSCI EAFE	1,611.70	3.44%	-6.09%	-13.44%
MSCI Emerging Markets	780.19	5.43%	-1.76%	-20.09%

Barclays Aggregate US	-0.04%	1.91%	1.80%
Bloomberg Non-US Govt Bond	0.84%	3.12%	-0.62%
Bloomberg US Treasury Index	-0.32%	2.59%	2.99%
Bloomberg High Yield Index	2.33%	0.95%	-5.41%

FTSE/NAREIT All REIT Index	3.50%	-0.44%	-4.36%
Bloomberg Commodity Index	3.87%	-0.22%	-23.20%

KEY BOND RATES	WEEK	1 MO AGO	1 YR AGO
3-Month T-Bill	0.29%	0.29%	0.01%
2-Year Treasury	0.88%	0.70%	0.66%
5-Year Treasury	1.38%	1.25%	1.60%
10-Year Treasury	1.88%	1.87%	2.12%
30-Year Treasury	2.70%	2.70%	2.72%
Municipal Bond Yields (10 Yr)	1.83%	1.69%	2.13%

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

## UPCOMING WEEK

Next week is relatively light on economic releases. The Labor Department will release its latest jobless claims report on Thursday. The number of Americans applying for new unemployment benefits grew by 6,000 to a seasonally adjusted 278,000 in the week ended February 27. Changes in import and export prices for February will be announced on Friday, which tend to be valuable gauge of inflation, both domestically and abroad.

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