



THE WEEK IN REVIEW

Stocks and treasury yields rose slightly this week to close out the final trading days of the quarter behind strong economic data which was largely in line with expectations. Consumer confidence blew away February's reading and economist expectations coming in at 125.6, more than 10 points ahead of forecasts of roughly 114.0 and February's reading of 116.1. March's confidence number is the highest level in more than 16 years and continues a strong run since the election. Surprisingly, the boost was somewhat evenly dispersed across all household income levels and geographic regions. Jobs expectations also improved, as the number of consumers rating jobs as "plentiful" rose from 26.9% to 31.7%, and "hard to get" fell from 19.9% to 19.5%.

The U.S. housing market continues to show strength, as the Case-Shiller home price index rose by 5.9% in January, the largest increase in 31 months. Much of this strength comes from a high demand for homes, particularly in the western region, as Seattle, Portland, and Denver all showed at least 9.0% gains over last year. Also noteworthy in the west region were San Francisco home prices, rising 6.3% in the last 12 months after overheating for a stretch. Further underscoring the strength in demand, February's pending home sales rose 5.5% compared to January, marking the second highest level in more than a decade.

Fourth quarter U.S. GDP was revised upward on Thursday, to an annualized rate of 2.1%, barely beating expectations of 2.0% and up from the 1.9% initially reported. The upward revision came in part due to increased spending on gasoline and travel related services. The biggest contributor, however, was consumer spending, raised to 3.5% from 3.0% previously, and an original estimate of just 2.5%. Corporate profits increased again and rose by 9.3% in the second half of 2016, the fastest pace since 2012.

The year-over-year change in the core consumer price index has been over 2.0% since November 2015, while the Fed's preferred measure, core PCE, has held relatively steady, advancing 1.7% on a year-over-year basis since September. The push higher to 1.8% in core PCE during February combined with the revision of January to 1.8%, indicate that the Fed is still moving closer to its 2% inflation goal even as it continues to look for opportunities to raise rates. The current level of core PCE suggests that the Fed is not yet behind the curve, but if core PCE continues to rise in the face of rate hikes the Fed may need to move more quickly than the market anticipates to prevent the economy from overheating, a risk some members of the FOMC have noted recently. For now, even with high levels of consumer confidence, the projected path of rate hikes appears appropriate. Currently the fed funds future market implies a 58% probability the next rate hike will occur in June of this year, and a 57% probability that the Fed raises rates two more times in 2017.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Conf. Board Consumer Confidence	125.60	113.30	▲
Personal Consumption Expenditure (YoY)	1.8%	1.7%	▲
U. of Mich. Consumer Sentiment	96.90	98.20	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	20663.22	0.32%	4.56%	16.84%
NASDAQ	5911.74	1.42%	9.82%	21.39%
S&P 500 LargeCap	2362.72	0.80%	5.53%	14.71%
MSCI EAFE	1802.11	0.25%	7.01%	9.08%
Barclays Aggregate US		-0.06%	0.69%	0.32%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.75%	0.60%	0.20%
10-Year Treasury	2.39%	2.39%	1.77%

REPORTS DUE NEXT WEEK	LATEST
ISM Manufacturing	58
Factory Orders	1.2%
Unemployment Rate	4.7%
Non-Farm Payrolls	235,000

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

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