USI Advisors, Inc.

Market Update

January 2017 Review

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"Please Keep Your Hands and Feet Inside The Car at All Times"

As markets finished off 2016 quite strong, sending equity valuations even higher, some wondered whether there would be a reversion to the mean at the beginning of 2017. Well, with January in the books, the final numbers showed that markets continued to climb. And while nobody is complaining about another positive month, some of us may be starting to feel as if we are on the front-end of a roller coaster ride where we are steadily climbing the tracks, nearing the precipice, and are bracing ourselves for the inevitable plunge down the other side.

As the new administration took over in early January, all eyes were on President Trump, watching to see whether he would begin to follow through on campaign promises. Almost without hesitation, the President began to institute changes. Whether or not one agreed or disagreed with the President's decisions, one thing was certain...markets continued to rise after a stellar 2016. The Dow crossed the 20,000 mark and returned 0.6% in January while the S&P 500 tacked on an impressive 1.9%. More remarkable was the NASDAQ, which jumped an astounding 4.3% for the month!

As indicated in last month's market update, one of President Trump's main goals for the country was to promote higher economic growth. He has already communicated plans to accomplish this by lowering taxes for companies and individuals, increasing infrastructure and defense spending and deregulating the financial and environmental sectors. This goal may be a bit more unrealistic in the shorter term when considering that the latest GDP growth numbers showed the economy grew at a meager 1.9% in the fourth quarter, with 1% of that growth attributable to an increase in inventories. Even more disheartening is the fact that the economy grew at a dismal 1.6% for 2016 as a whole, the slowest pace since 2011. The consumer is certainly not to blame, however, as data indicated that personal consumption expenditures rose at a 2.5% pace in the fourth quarter. While this was lower than the 3.0% and 4.3% in the prior two quarters, the number is still rather strong. This spending is not surprising when you consider that consumer sentiment is at the cycle highs, with prospects for future income at its highest level in a decade.

	January 2017	YTD
DJIA	0.62%	0.62%
S&P 500	1.90%	1.90%
NASDAQ	4.30%	4.30%
MSCI EAFE	2.90%	2.90%
MSCI Emerging Markets	5.47%	5.47%
Barclays Aggregate	0.20%	0.20%
Barclays Corp High Yield	1.45%	1.45%
	1/31/2017	12/31/2016
US 10-Year Treasury Yield	2.45%	2.45%

Internationally the upcoming elections in Germany and France are still on investors' minds, however international equity markets thrived in January. The MSCI EAFE Index, which represents developed international markets, gained 2.9% in January while emerging markets, as measured by the MSCI Emerging Markets Index, rose significantly, adding 5.5%. However if the Fed continues to raise rates, this could negatively impact emerging markets performance this year.

On the fixed income front, markets were much more subdued, at least on the investment-grade level. The Bloomberg Barclays US Aggregate Index gained a rather pedestrian 0.2% for the month as rates fluctuated in January. However, with investors seemingly on a never ending search for yield, the Bloomberg Barclays U.S. High Yield performed well yet again in January after staking claim to the title of best performing asset class in 2016. The index rose an impressive 1.5% in January. Looking ahead, rising inflation and the very real possibility of future rate hikes could lead to a much choppier landscape for fixed income markets during the remainder of the year.

A new President, drastic changes to the immigration policy, and a somewhat divided nation are all realities we faced in January, yet equity markets were resilient. Normally, this resiliency would be applauded. However in this case, there is a bit of an uneasy feeling that what goes up must come down at some point. So as we make our way up the tracks on this roller coaster that is the equity market, it's important to always diversify your assets and be sure to keep your hands and feet inside the car at all times.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measures the value of residential real estate in 20 major U.S. cities.

Michigan Consumer Sentiment Index is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Conference Board's Consumer Confidence Index an index by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

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