



Donald Calcagni, CFP®, MST
Chief Investment Officer

NOTE: We welcome your feedback and questions. Feel free to send us an email at CIOForum@merceradvisors.com.

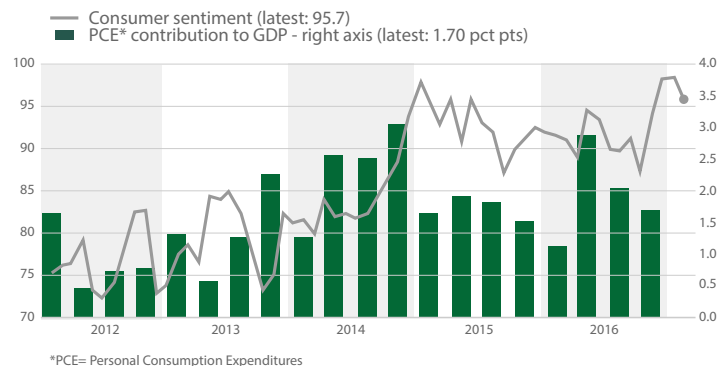
The Markets (as of market close February 10, 2017)

Major stock indexes posted a week of gains as the Dow, S&P 500, and Nasdaq each achieved record highs. Long-term bond prices also rose last week, with the yield on 10-year Treasuries falling 6 basis points. Favorable fourth-quarter corporate earnings reports, coupled with President Trump's proposal to lower taxes for businesses, helped drive equities.

Last Week's Headlines

Consumer surveys from the University of Michigan show consumer expectations for the economy fell in February. Falling expectations helped pull the Index of Consumer Sentiment down from 98.5 in January to 95.7 this month.

U.S Consumer Sentiment



Source: Thomson Reuters. Data as of February 10, 2017.

The final report on the goods and services trade deficit for December 2016 shows the deficit at \$44.2 billion, down \$1.5 billion from \$45.7 billion in November. Exports climbed \$5.0 billion in December over the prior month, while imports increased \$3.6 billion.

For 2016, the goods and services deficit was \$502.3 billion, up \$1.9 billion, or 0.4%, from the \$500.4 billion deficit in 2015. In 2016, exports decreased \$51.7 billion, or 2.3%, while imports decreased \$49.9 billion, or 1.8%. It's important to note that a narrowing trade gap doesn't necessarily equate to economic strength. A decrease in consumer purchases of goods and services may not only weaken imports, but may cause the GDP to contract as well.

The federal budget ran a surplus of \$51.27 billion in January compared to a deficit of \$27.34 billion the previous month. Government receipts in January were \$344.07 billion, while expenditures were \$292.81 billion. Four months into the government's fiscal year, the deficit sits at \$156.94 billion compared to \$160.48 billion over the same period last fiscal year.

The Job Openings and Labor Turnover Survey (JOLTS) for December revealed that the number of job openings was little changed at 5.5 million on the last business day of December. Over the month, hires and separations were also little changed at 5.3 million and 5.0 million, respectively. The gap of roughly 250,000 between job openings and hires was the narrowest of 2016. Over the 12 months ended in December, hires totaled 62.5 million and separations totaled 60.1 million, yielding a net employment gain of 2.4 million. The quits rate was 2.0% in December, down slightly from the 2.1% rate the prior month. A higher quits rate may be indicative of employee confidence in the ability to leave a job and find another one.

Import prices advanced 0.4% in January following a 0.5% increase in December. A rise in fuel prices (5.8%) more than offset declining nonfuel prices (-0.2%). Import prices have risen 3.7% over the past year. The advance between January 2016 and January 2017 is the largest 12-month rise since the index increased 5.1% in February 2012. The prices for exports gained 0.1% in January, after advancing 0.4% the previous month. Rising prices for non-agricultural exports (0.1%) more than offset falling agricultural prices (-0.2%) in each of the two months. Other than an

continued...

MARKET SUMMARY

| | 2/10/17 | 1 Week | QTD | YTD | 1 Year |
|-------------------------|---------|---------|------|--------|---------|
| S&P 500 | 2316 | 0.87 ▲ | 3.66 | 3.66 ▲ | 27.78 ▲ |
| Dow Jones | 20269 | 1.13 ▲ | 2.84 | 2.84 ▲ | 30.69 ▲ |
| Russell 2000 | 3452 | 0.83 ▲ | 2.43 | 2.43 ▲ | 46.32 ▲ |
| MSCI EAFE | 1741 | -0.02 ▼ | 3.48 | 3.48 ▲ | 19.09 ▲ |
| NASDAQ | 5734 | 1.24 ▲ | 6.63 | 6.63 ▲ | 35.53 ▲ |
| 10-Year U.S. Treasuries | 2.41 | 2.49 ▲ | 2.45 | 2.45 ▲ | 1.71 ▲ |

Source: J.P. Morgan Asset Management

| | 2/10/17 | 12/30/16 | 2/10/16 |
|-----------|---------|----------|---------|
| \$ per € | 1.06 | 1.05 | 1.12 |
| \$ per £ | 1.25 | 1.24 | 1.45 |
| ¥ per \$ | 113.59 | 116.64 | 114.52 |
| Oil (WTI) | 53.85 | 53.75 | 27.54 |
| Gasoline | 2.29 | 2.31 | 1.76 |
| Gold | 1228 | 1146 | 1190 |

0.8% drop in August 2016, export prices have trended upward since April 2016 and rose 2.3% for the year ended in January 2017.

In the week ended February 4, the advance figure for seasonally adjusted initial unemployment insurance claims was 234,000, a decrease of 12,000 from the previous week's unrevised level. The four-week moving average was 244,250, a decrease of 3,750 from the previous week's unrevised average of 248,000. This is the lowest level for this average since November 3, 1973, when it was 244,000. The advance seasonally adjusted insured unemployment rate remained at 1.5%. The advance number for seasonally adjusted insured unemployment during the week ended January 28 was 2,078,000, an increase of 15,000 from the prior week's revised level.

Eye on the Week Ahead

Economic reports this week focus on international trade. The Census Bureau's report on the December trade deficit will be the first such report following President Trump's election. The last report showed that the deficit increased about \$3 billion to \$45.2 billion in November. Also, the preliminary report on import and export prices releases later in the week. For 2016, import prices grew at a rate of 1.8%, while export prices increased at 1.1% – indicative of the strength of the U.S. dollar.

Key Dates/Data Releases

2/15: Consumer Price Index, Retail Sales, Industrial Production

2/16: Housing Starts

Sources: Broadridge/Forefield, Bloomberg