

# The Weekly Letter



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- ➔ **R(E)nergized (M)arkets:** Emerging Markets (EM) have been the top-performing equity asset class year-to-date, with the MSCI Emerging Markets Index up 8.0% through March 3. Given uncertainty over economic policy and the prospect of rising rates in the U.S., plus China's move toward new growth drivers, though, we suggest investors employ a barbell approach tailored to an appropriate risk profile. Holding EM allows for capture of improved cyclical momentum, alongside a position in higher-quality U.S. larger capitalization equities with healthy free cash flows and dividend growth.
- ➔ **Markets in Review:** Last week, equities appreciated, with the S&P 500 Index up 0.7% and international equities, as represented by the MSCI EAFE Index, up 0.4%. Bond prices fell on the week, with the 10-year Treasury yield at 2.48% Friday, up from 2.31% the prior week. Commodities overall, as measured by the Bloomberg Commodity Index, fell 0.3% last week, while WTI crude fell 1.2% to \$53.33 a barrel and gold fell 1.8% to \$1,234.55 per ounce.
- ➔ **Looking Ahead:** In the U.S., economic data this week will be focused on non-farm payrolls and average hourly earnings. A recent uptick in wages has helped bolster sentiment towards the U.S. consumer and the broader economy. In Europe, Eurostat will produce its final reading on Eurozone gross domestic product for the fourth quarter. (See Page 3.)

## R(E)nergized (M)arkets

Emerging Market (EM) equities, as measured by the MSCI Emerging Markets Index, have been the best-performing equity asset class year-to-date (as of March 3), posting an 8.0% return. This compares to a year-to-date return of 6.4% for the S&P 500 and 5.6% for the MSCI Developed Markets Index. Currency markets are affirming the improving prospects. The J.P. Morgan Emerging Market Currency Index has returned 2.6% this year, closing in on a full recovery from post-U.S. presidential election losses. Emerging Markets have been on a tear. Meanwhile, key industrial metals—such as iron ore and copper, which have respectively returned 15.8% and 7.2%—further corroborate a synchronized global cyclical upswing taking hold.

Our October **upgrade of EM to overweight** was largely based on early signs of this now more evident development. Accelerating economic growth and rebounding inflation are poised to contribute to improving fundamentals and highlight the relative attractiveness of EM versus the U.S. equity market. We believe countries best positioned would be those with the most favorable growth and inflation outlooks.

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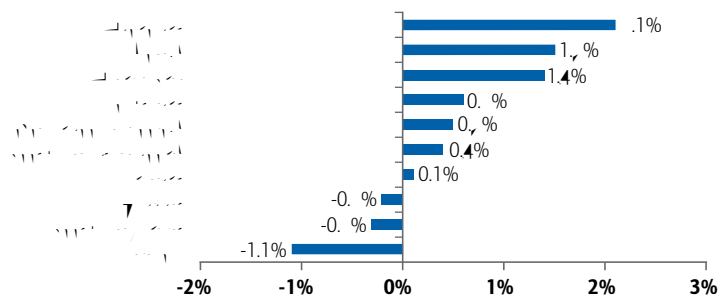
# Markets in Review

## Trailing Economic Releases

- On Wednesday, the U.S. Bureau of Economic Analysis reported personal spending for January of 0.2% month-over-month, slightly below the BofAML Global Research target of 0.3%.
- On Friday, Fed Chair Yellen suggested an increased likelihood of a policy interest rate hike in March during a speech in Chicago, with the markets pricing in greater than a 90% chance of a hike. BofAML Global Research now projects three rate hikes for 2017.
- On Tuesday, Eurostat released its February Consumer Price Index (CPI) for the Eurozone. The Eurozone finally hit 2% year-over-year inflation, slightly surprising on the upside. BofAML Global Research expected 1.9%. Inflation was bolstered by food price inflation. BofAML Global Research expects food and energy prices to continue to add to inflation until April.

## S&P 500 Sector Returns (as of last Friday's market close)

### S&P 500 Sector Total Returns (week-to-date)



## Equities

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
DJIA	21,005.7	0.9	0.9	6.8
NASDAQ	5,870.8	0.5	0.8	9.3
S&P 500	2,383.1	0.7	0.9	6.8
S&P 400 Mid Cap	1,739.5	0.2	0.6	5.0
Russell 2000	1,394.1	0.0	0.6	2.9
MSCI World	1,849.0	0.5	0.6	5.9
MSCI EAFE	1,757.3	0.4	0.3	4.7
MSCI Emerging Mkts	931.1	-1.3	-0.5	8.1

## Fixed Income

	Yield (%)	Total Return in USD (%)		
		WTD	MTD	YTD
ML US Broad Market	2.62	-0.8	-0.6	0.3
ML 10-Year US Treasury	2.48	-1.4	-1.0	-0.1
ML US Muni Master	2.56	-0.5	-0.6	0.6
ML US IG Corp Master	3.37	-0.7	-0.6	0.9
ML US HY Corp Master	5.66	0.3	0.1	3.0

## Commodities & Currencies

	Level	Total Return in USD (%)		
		WTD	MTD	YTD
Bloomberg Commodity	176.4	-0.3	-0.6	-0.3
WTI Crude \$/Barrel <sup>1</sup>	53.3	-1.2	-1.3	-0.7
Gold Spot \$/Ounce <sup>1</sup>	1,234.6	-1.8	-1.1	7.1

Level	Current	Prior	Prior	2016
		Week End	Month End	Year End
EUR/USD	1.06	1.06	1.06	1.05
USD/JPY	114.04	112.12	112.77	116.96

Source: Bloomberg.<sup>1</sup> Spot price returns. All data as of last Friday's close. Past performance is no guarantee of future results.

# Looking Ahead

## Upcoming Economic Releases

- On Thursday, in the U.S., the Bureau of Labor Statistics is set to release its change in non-farm payrolls for February. BofAML Global Research expects 185,000, less than its 227,000 reading from January.
- On Friday, the U.S. Bureau of Labor Statistics will release its month-over-month average hourly earnings for February. BofAML Global Research estimates 0.3%, an increase from earnings growth of 0.1% in January. Wages have been increasing in the U.S., helping bolster the U.S. consumer and economy more broadly.
- On Thursday, Eurostat is set to report its final growth reading of the Eurozone's seasonally adjusted gross domestic product. BofAML Global Research expects 0.4% quarter-over-quarter growth for the fourth quarter, consistent with third-quarter growth.

## BofA Merrill Lynch Global Research Key Year-End Forecasts

<b>S&amp;P 500 Outlook</b>	<b>2017 E</b>
Target	2,450
EPS	\$129.00
<b>Real Gross Domestic Product</b>	<b>2017 E</b>
Global	3.5%
U.S.	2.1%
Euro Area	1.5%
Emerging Markets	4.6%
<b>U.S. Interest Rates</b>	<b>2017 E</b>
Fed Funds (eop)	1.38%
10-Year T-Note (eop)	2.85%
<b>Commodities</b>	<b>2017 E</b>
Gold (\$/oz-period average)	\$1,275
WTI Crude Oil (\$/bbl-eop)	\$59.00

All data as of last Friday's close.

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