



MARCH 7, 2017

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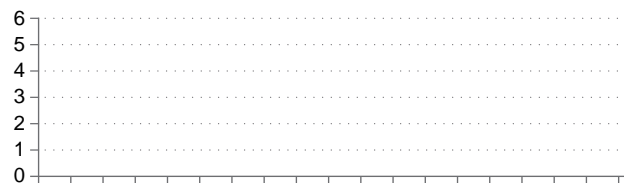
- ➔ **R(E)nergized (M)arkets:** Emerging Markets (EM) have been the top-performing equity asset class year-to-date, with the MSCI Emerging Markets Index up 8.0% through March 3. Given uncertainty over economic policy and the prospect of rising rates in the U.S., plus China's move toward new growth drivers, 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

Exhibit 1: A real —not just nominal —pickup is under way

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 such as India, which are less trade- and commodity-dependent and have more domestic support from monetary policy and internal reform. Over the long term, we see the rise of the Emerging Market consumer, supported by rising income and, in turn, spending power, as a structural tailwind for the asset class.



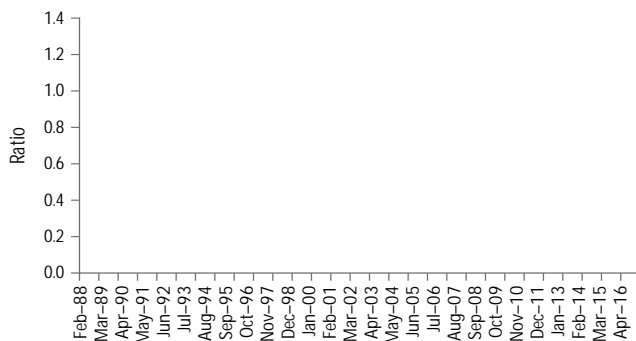
Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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growth in Developed Markets later in the year. In addition, export growth has picked up across major EM economies such as China, Indonesia, Brazil, Taiwan and South Korea. While some of this growth is tied to a price rebound in commodities, a reacceleration in trade volumes throughout the latter part of 2016 suggests a pickup in real terms as well. (See Exhibit 1.)

Rising real and nominal economic growth provide a positive fundamental backdrop for EM and augurs well amid attractive relative valuations. Our Global Emerging Markets Strategist, Ajay Kapur, expects an upside surprise to the consensus expectation of 12-14% annual growth in earnings per share (EPS) of Asian and EM companies. Proprietary Bank of America Merrill Lynch Global Research leading indicators suggest roughly 20% EPS growth this year for Asia excluding Japan.

The case for these gains materializing and remaining sustainable is gaining favor. EM sold off in the immediate aftermath of the election of President Donald Trump on fear that his protectionist rhetoric would translate into action. Since then, he has moderated his stance, raising expectations that he will instead negotiate with trading partners to avoid a destructive trade war that would harm the global economic pickup. Should this scenario gain momentum and EPS growth materialize, it would bolster the case for EM equities to catch up with their Developed Market counterparts and make other cyclical assets within the space, such as EM debt, more appealing. A comparison of the MSCI Emerging Markets Index versus the S&P 500 shows the former is attractively priced versus the latter (see Exhibit 2). What's more, the MSCI EM index trades at a discount to its 10-year average valuation versus the S&P 500. For trailing price-to-earnings (P/E), forward P/E, and price-to-book, EM trade at a 9%, 14% and 30% discount, respectively.

Exhibit 2: EM equities are attractively priced vs. U.S. equities



# Markets in Review

## Trailing Economic Releases

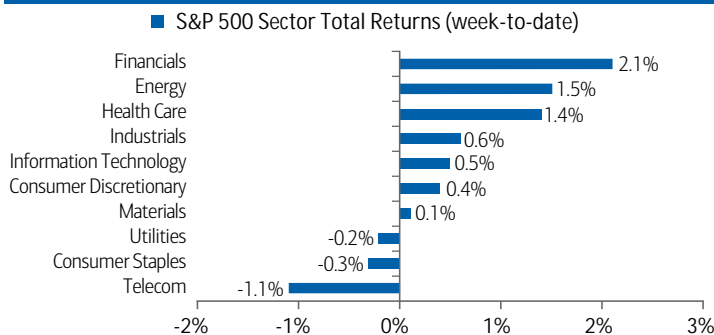
On Wednesday, the U.S. Bureau of Economic Analysis reported personal spending for January of 0.2% month-over-month, slightly below the BofAML Global Research target of 0.3%.

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 tally hit 2% year-over-year in 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)



## 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 annual 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

S&P 500 Outlook	2017 E
Target	2,450
EPS	\$129.00
Real Gross Domestic Product	2017 E
Global	3.5%
U.S.	2.1%
Euro Area	1.5%
Emerging Markets	4.6%
U.S. Interest Rates	2017 E
Fed Funds (eop)	1.38%
10-Year T-Note (eop)	2.85%
Commodities	2017 E
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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