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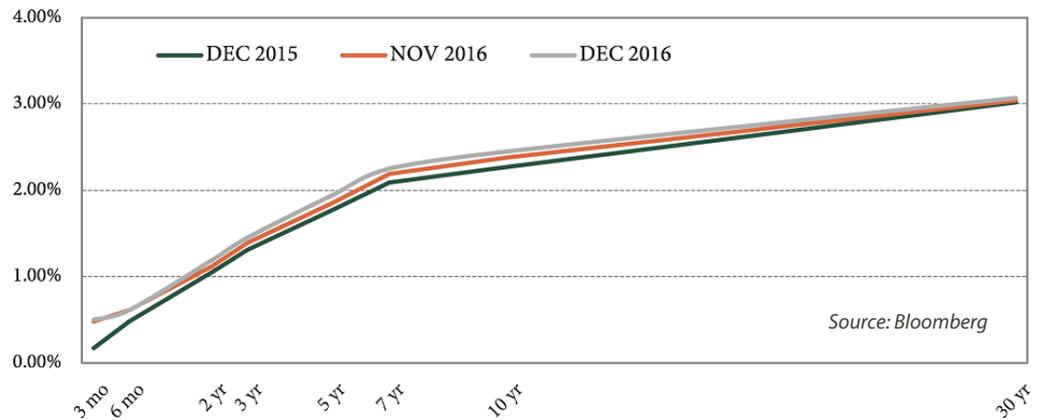
## Market Summary

The Federal Open Market Committee (FOMC) unanimously voted to increase the target fed funds rate by 25 basis points to a range of 0.50%-0.75%, at the December 14 meeting. The Fed noted that economic activity has expanded at a moderate pace and labor market trends have improved, but inflation remains below target. The Fed's revised "dot plot" was slightly more hawkish, as the projected path of the fed funds rate was revised upward. The Committee's GDP and inflation forecasts were little changed while projections for the unemployment rate were revised down slightly. The FOMC's median projection for the fed funds rate in 2017 was revised up to 1.4% from 1.1%, which would be indicative of two or three more 25 basis point rate hikes this year. The Fed's longer-run median fed funds target rate was revised up to 3.0% from 2.9%. Fed Chair Yellen downplayed the forecast changes during her post-meeting press conference, and continued to emphasize that future increases in the fed funds rate are expected to be gradual. She added that it is too early to anticipate how potential changes in fiscal policy will impact the economy and the Fed's outlook. The market is now pricing in more than a 70% chance of another rate hike in June 2017.

Domestic economic data points to ongoing moderate growth this year. The U.S. labor market continues to improve, consumer confidence remains strong, and housing trends remain mostly favorable. The manufacturing sector has also improved. Market participants estimate GDP grew 2.2% in the fourth quarter.

In December, the yield shifted upward as the 2-year Treasury yield increased nearly 8 basis points and the 10-year Treasury yield increased about 6 basis points. The move up in rates over the past few months has largely been driven by heightened expectations for fiscal stimulus, and a potential increase in inflation, in light of President-elect Trump's victory and the Republican Party's congressional sweep in the US.

## The Treasury Yield Curve Steepened:



In December, the yield curve steepened. On a year-over-year basis the 2-year Treasury yield increased 14 basis points and the 10-year Treasury yield increased about 18 basis points. Over the past year, financial market volatility has been elevated due to weak global economic growth, volatile commodity prices, political uncertainty, and divergent global central bank monetary policy.

TREASURY YIELDS	Trend (▲/▼)	12/31/2016	11/30/2016	Change
3-Month	▲	0.50	0.48	0.02
2-Year	▲	1.19	1.12	0.07
3-Year	▲	1.45	1.39	0.06
5-Year	▲	1.93	1.84	0.09
7-Year	▲	2.25	2.19	0.06
10-Year	▲	2.45	2.38	0.07
30-Year	▲	3.07	3.04	0.03

Source: Bloomberg

## Economic Roundup

### Consumer Prices

The Consumer Price Index (CPI) was up 1.7% year-over-year in November, versus up 1.6% year-over-year in October. Core CPI (CPI less food and energy) was up 2.1% year-over-year in November, unchanged from October. The Personal Consumption Expenditures (PCE) index was up 1.4% year-over-year in November, unchanged from October. Core PCE (excluding food and energy) was up 1.6% year-over-year in November, after being up 1.8% year-over-year in October. Although Core CPI is trending above 2.0%, the Fed's primary inflation gauge is PCE which remains below the Fed's 2.0% target.

### Retail Sales

On a year-over-year basis, total retail sales were up 3.8% in November compared with a 4.2% increase in October. On a month-over-month basis, retail sales were up just 0.1% in November, below expectations of 0.4%. Excluding autos and gas, retail sales rose 0.2% in the month.

### Labor Market

Nonfarm payrolls were lower than expected in December, up 156,000 versus the consensus forecast of 175,000. However, October and November payrolls were revised up by a total of 19,000. On a trailing 3-month and 6-month basis, payrolls increased by an average of 165,000 and 188,500 per month, respectively. The unemployment rate inched back up to 4.7% from 4.6%, but the participation rate also increased to 62.7% from 62.6%. A broader measure of unemployment called the U-6, which includes those who are marginally attached to the labor force and employed part time for economic reasons, declined to 9.2% in December from 9.3% in November. Wages were up a solid 0.4% in December, versus expectations for a 0.3% increase. On a year-over-year basis, wages were up 2.9% in December (the highest year-over-year increase since June 2009), vs. 2.5% in November.

### Housing Starts

Total housing starts fell 18.7% in November, following a gain of 27.4% in October. Single-family starts fell 4.1% in November while multi-family starts plunged 45.1%. Housing starts tend to be volatile on a month-to-month basis. Permits were up slightly in October.

### Credit Spreads Tightened Slightly in November

CREDIT SPREADS	Spread to Treasuries (%)	One Month Ago (%)	Change
3-month top rated commercial paper	0.32	0.29	0.03
2-year A corporate note	0.61	0.62	(0.01)
5-year A corporate note	0.69	0.72	(0.03)
5-year Agency note	0.08	0.09	(0.01)

Source: Bloomberg

Data as of 12/31/2016

### Economic Data Points to Continued Slow Growth

ECONOMIC INDICATOR	Current Release	Prior Release	One Year Ago
Trade Balance	(45.2) \$Bln NOV 16	(42.4) \$Bln OCT 16	(41.1) \$Bln NOV 15
GDP	3.5% SEP 16	1.4% JUN 16	2.0% SEP 15
Unemployment Rate	4.7% DEC 16	4.6% NOV 16	5.0% DEC 15
Prime Rate	3.75% DEC 16	3.50% NOV 16	3.50% DEC 15
CRB Index	192.51 DEC 16	189.31 NOV 16	176.14 DEC 15
Oil (West Texas Int.)	\$53.72 DEC 16	\$49.44 NOV 16	\$37.04 DEC 15
Consumer Price Index (y/o/y)	1.7% NOV 16	1.6% OCT 16	0.5% NOV 15
Producer Price Index (y/o/y)	0.5% NOV 16	0.6% OCT 16	(3.3%) NOV 15
Dollar/Euro	1.05 DEC 16	1.06 NOV 16	1.09 DEC 15

Source: Bloomberg

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## Market Data

### World Indices

data as of 12/31/2016

	Diff. (11/30/16)	% Change
S&P 500		
<b>2,238.83</b>	40.02	(1.82%)
NASDAQ		
<b>5,383.12</b>	59.44	(1.12%)
DOW JONES		
<b>19,762.60</b>	639.02	(3.34%)
FTSE (UK)		
<b>7,142.83</b>	359.04	(5.29%)
DAX (Germany)		
<b>11,481.06</b>	840.76	(7.90%)
Hang Seng (Hong Kong)		
<b>22,000.56</b>	-789.21	(-3.46%)
Nikkei (Japan)		
<b>19,114.37</b>	805.89	(4.40%)

Source: Bloomberg



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