BoliColi.com

M Holdings Securities, Inc.™

Q1 2017

Quarterly Economic News

January–March 2017

Index	Qtr	1 Yr Return	5 Yr Return	10 Yr Return
Barclays U.S. Aggregate Index	0.82%	0.44%	2.34%	4.27%
MSCI AC World Ex US Net Total Return	7.86%	13.13%	4.36%	1.35%
Russell 2000 Total Return	2.47%	26.22%	12.35%	7.12%
S&P 500 Composite Total Return	6.07%	17.17%	13.30%	7.51%

Economic News

The U.S. economy continued to move in a positive direction over the first quarter of 2017. The national unemployment rate was 4.8% in January and dropped to 4.5% by the end of March. Total nonfarm payroll employment went up 227,000 in January, 235,000 in February, and 98,000 in December, for a total increase of 560,000 over the course of the quarter. This reflects a larger increase in total nonfarm payroll than the fourth quarter of 2016, which had a total increase of 495,000.

Stock Market Benchmarks

The Dow Jones Industrial Average ended March at 20,663.22, reflecting a 3.98% increase since the beginning of January. The S&P 500 closed the quarter at 2,362.72, reflecting a 4.94% increase over the quarter. The NASDAQ Composite closed the quarter at 5,911.74, reflecting an increase of 8.96% since the beginning of January. The Russell 2000 and NYSE Composite increased 2.06% and 3.18%, respectively, over the quarter.

Fed Funds and Fixed Mortgage Rates

After starting the year at 0.36%, the effective federal funds rate (the EFFR) more than doubled over the course of the quarter, ending March at 0.82%.

At the start of the year, the average 30-year fixed rate mortgage was 4.15%. By the end of the first quarter, it had risen to 4.20%.

It is unclear what to expect in the second quarter of 2017, which represents the first full quarter of the

GDP (Lagging Indicator)
Q4 2016 (Third Estimate)
Increased at annual rate of 2.1%.

Existing Home Sales
Through February 2017
Down 3.7% due to decreased supply and affordability problems.

Unemployment Rate
Through March 2017
Declined to 4.5% (seasonally adjusted).

Consumer Price Index
February 2017
Increased by 0.1% (seasonally adjusted).

Trump Administration. Federal Reserve Chairwoman Janet Yellen has suggested that the U.S. economy is in a position to withstand additional rate hikes. Whether that happens, and how that impacts unemployment, stock markets, and the economy as a whole, is something to watch for.

Retail Woes

2017 is proving to be another challenging year for traditional brick and mortar retailers. Although retail sales have generally been strong—jumping 4% in November and December of 2016—the woes of traditional retailers don't seem to be improving. The idea that consumers simply aren't spending and that retail is "dead" is not entirely true. Rather, the shopping habits of consumers have shifted from the more traditional brick and mortar retail locations to e-commerce. According to the U.S. Department of Commerce, total e-commerce sales for 2016 were estimated at $394.9 billion, an increase of 15.1% from 2015, while total retail sales in 2016 increased 2.9% from 2015. E-commerce sales in 2016 accounted for 8.1% of total sales, an increase from 7.3% of total sales in 2015. E-commerce sales have grown consistently for multiple quarters and haven't shown any signs of slowing. Clearly, consumers are shifting their shopping habits online, with retailers such as Amazon benefiting the most. This shift is impacting many traditional retailers such as Macy's, JC Penney, and Sears, who have announced hundreds of store closures in order to cut expenses. On March 22, Sears expressed doubts about its future as a retailer, reigniting fears of bankruptcy for the chain. In addition to retailers themselves, the future of traditional malls remains unclear as they deal with an increase in store closures. In order to adjust to shifting consumer habits and to continue to draw in customers, it's likely the traditional mall will also need to explore a change in business model.

> *"In the short run, the market is a voting machine but in the long run, it is a weighing machine."*
>
> —Benjamin Graham

Fed Rate Hikes Pick up Pace

The Federal Reserve Board of Governors voted to raise the federal funds rate by 0.25% to an effective range of 0.75%–1.00%[1], as of March 16, 2017. The announcement comes just three months after the last rate hike. Prior to the latest increase, the Fed waited a full year before implementing a subsequent rate hike. The Federal Reserve is expected to increase rates two more times within the year and has provided guidance for a total of three rate hikes during 2017 while targeting 2% inflation and full employment objectives.

So far, the pace of rate hikes has been slower than average when compared to previous increasing rate periods. The past five rate hike periods (1983-2006) have averaged nine hikes over 14 months, for an average of a 3.08% total rate increase.[2] The current rate hike period started in December 2015 and included three hikes over 15 months, with 0.75% total increase in rates.[3] The Federal Reserve projects to end 2017 with a fed funds rate of 1.4–1.6%, with a longer term projection of 2.8–3.0%.[4] The projections have tightened in recent quarters as consensus builds among board members for short-term and medium-term rate projections.

1. Federal Reserve FOMC Press Release 03/15/2017: https://www.federalreserve.gov/monetarypolicy/files/monetary20170315a1.pdf
2. JP Morgan Market Insights On the Bench 1Q 2017: https://am.jpmorgan.com/blob-gim/protected/1383412108705/83456/MI-GTM-Bench_1Q17.pdf?segment=AMERICAS_US_ADV&locale=en_US
3. Federal Reserve: https://www.federalreserve.gov/data.htm
4. Federal Reserve FOMC Projections 03/15/2017: https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20170315.pdf

Quarterly Economic News

January–March 2017

The Federal Reserve Board indicated it will continue to closely monitor inflation and unemployment targets. If inflation measures move past the target of 2.0% and unemployment continues to fall, we might see rate increases at a pace faster than current guidance suggests. Wage growth and energy prices will continue to have an impact on inflation. Wage growth in the current recovery period has so far been slow to rise and energy prices have recently been depressed. Both measures are likely to play an important role in the Federal Reserve's policy moving forward.

The Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index of investment-grade, fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. The MSCI All Country World Exclude U.S. Net Total Return is a commonly used measure of common stock total return performance of 22 of 23 Developed Markets countries excluding the U.S. The Russell 2000 Total Return Index is a commonly used measure of small capitalization stocks. The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results. The information and opinions expressed herein are for general and educational purposes only. Nothing contained in this newsletter is intended to constitute legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third party sources are believed to be reliable but not guaranteed. M Holdings Securities, Inc. makes no representation regarding the accuracy or completeness of information provided herein. All opinions and views constitute our judgments as of the date of writing and are subject to change at any time without notice.

Contact Information

To learn more, please contact:

BoliColi.com
281 Main Street, Floor 2
Reading, MA 01867

T: 781.942.5700
F: 781.942.5710

www.bolicoli.com