

## KEY TAKEAWAYS

- The stock market rally continued more or less unabated in February, with U.S. stocks hitting new record highs on an almost daily basis. While hopes of faster growth as a result of proposed business-friendly policies from the new administration are a large part of the story, an actual recent improvement in fundamentals (corporate earnings and economic data) should not be overlooked. The earnings recession is now in the rear-view mirror, which helps to provide an underpinning for the equity market.
- As stock prices surge to previously unseen levels, investors are starting to pay attention to elevated valuations. While it is true that expensive valuations may dampen the intermediate-term return outlook (it's usually better to buy cheap and vice versa), it is important to remember that valuations are not necessarily by themselves a reliable market timing mechanism—when the going is good and confidence is rising, prices can overshoot to the upside by significant magnitudes and for extended periods of time.
- Given an uptick in inflation and low levels of jobless claims, the Federal Reserve is preparing to tighten again soon. While a rate hike could occur as early as this month's meeting, the widely-anticipated rate hike should not be overly disruptive as markets have already largely priced it in. The central bank also anticipates additional rate hikes later in the year as they continue their gradual pace of rate increases.

MASSACHUSETTS  
617-350-8999

NEW JERSEY  
201-944-PATH (7284)

WASHINGTON D.C.  
301-998-0300

GEORGIA  
404-592-0180

FLORIDA  
239-214-7931

CALIFORNIA  
310-734-5320

OREGON  
503-228-3941

www.Pathstone.com

## INDEX PERFORMANCE (as of 02/28/17)

Equity	February	Year-to-Date	One-Year
U.S. Large Cap	4.0%	5.9%	25.0%
U.S. Small Cap	1.9%	2.3%	36.1%
Developed Non-U.S.	1.4%	4.4%	16.3%
Emerging Market	3.1%	8.7%	29.9%
<b>Real Assets</b>			
Real Estate	3.3%	4.5%	14.5%
Commodities	0.2%	0.4%	16.0%
Natural Resource Equities	-3.0%	-3.7%	32.0%
<b>Fixed Income</b>			
<u>Core Plus</u>			
U.S. High Yield Debt	1.5%	1.5%	21.8%
Emerging Market Debt	1.8%	2.3%	12.4%
<u>Core Bonds</u>			
U.S. Aggregate Bonds	0.7%	0.2%	1.4%
U.S. Treasuries	0.5%	0.2%	-1.2%
U.S. Municipal Bonds	0.7%	0.8%	0.0%
<b>Month-End Values/Yields</b>			
CBOE Volatility Index	12.9	12.0	20.6
10-Year Treasury Yield	2.4%	2.5%	1.7%

Sources: Bloomberg, Morningstar

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

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