



THE WEEK IN REVIEW

As expected, the Federal Reserve raised interest rates for the third time since the 2008 recession. The Fed raised its benchmark federal funds rate by 0.25% to the range of 0.75% to 1.00%. Fed officials' median interest rate projections indicate two additional 0.25% rate increases this year and three more next year. Prices of stocks and bonds rose in response to the Fed's announcement. The S&P 500 gained 0.8% on Wednesday while the U.S. 10-year Treasury yield fell to 2.50% from 2.60%, its largest daily decline since last June.

Inflation continued to accelerate in February. The consumer price index (CPI) rose 2.8% over the last 12 months marking the highest year-over-year inflation rate since March 2012. The recovery in oil prices continues to drive headline inflation. Energy costs are 15% higher from a year ago. Core CPI, which excludes the volatile food and energy components, remained stable at 2.2%. Stronger inflation is one of the supporting reasons for the Fed's interest rate increases. The Fed's preferred measure of inflation, the Commerce Department's personal consumption expenditure index, was 1.9% in January. The Fed's target for this measure of inflation is 2.0%.

Multiple reports this week showed that the post-election increase in optimism among businesses and consumers remains strong. The NFIB Small Business Optimism Index retreated slightly to 105.3 in February, but remained near an all-time high. Small business optimism has increased sharply since the election as business owners anticipate beneficial policy changes from the new administration. Another measure of business optimism, the Business Roundtable CEO Economic Outlook Index, jumped 19.1 points to 93.3 in the first quarter survey, which was its largest quarterly increase since the fourth quarter of 2009. Consumer optimism also remains strong. The University of Michigan's consumer sentiment index increased 1.3 points in March to 97.6, only slightly lower than the 12-year high of 98.5 reached in January.

Warmer weather and a rush of buyers trying to get mortgages before interest rates rise further are helping the housing industry. The National Association of Home Builders said builders are reporting more buyer traffic and improved sales conditions. Single family housing starts reached the highest level since October 2007. Single family permits for future construction also hit its highest level since 2007, indicating home builders remain very optimistic about demand.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Retail Sales (month over month)	0.1%	0.2%	▼
CPI (year over year)	2.8%	1.7%	▲
Housing Starts (in millions)	1.28	1.14	▲
Consumer Sentiment	97.6	98.2	▼
Industrial Production	0.00%	-0.03%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	20914.62	0.06%	5.83%	19.64%
NASDAQ	5901.00	0.67%	9.62%	23.58%
S&P 500 LargeCap	2378.25	0.24%	6.23%	16.55%
MSCI EAFE	1796.80	1.87%	6.70%	8.00%
Barclays Aggregate US		0.39%	0.04%	0.43%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	0.72%	0.51%	0.28%
10-Year Treasury	2.50%	2.41%	1.90%

REPORTS DUE NEXT WEEK	LATEST
Existing Home Sales (in millions)	5.69
New Home Sales	555,000
Durable Goods Orders (month over month)	1.8%

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

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