Market Update

November 2016 Review

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"Markets React Positively to Election Outcome"

Politics continued to grab headlines both on the domestic and international levels during the month of November. After one of the most divisive U.S. presidential elections, Donald Trump's victory shocked both voters and investors alike. Initially, the results caused some uncertainty in the financial markets as a Republican sweep was largely unanticipated. However, so far major market indices have been supportive of the country's decision at the polls.

In the days leading up to the election, the media and the polls had everyone convinced that the outcome of the election was known. Even the markets seemed to have priced in a Hillary victory. However, a divided America began to cope with the reality of a Donald Trump victory on November 8th. The U.S. had elected Trump on the vow that he would put America first, but the lack of transparency on trade and foreign politics caused some market uncertainty the night of the election. However, after a surprising result, it didn't take long for the markets to soar off their post-election night low. The Dow shook off its initial plunge to have the best week in 5 years following the election and the S&P 500 and NASDAQ followed suit, gaining over 3%. The rally continued with all three indices reaching record levels in November. The Dow Jones Industrial Average climbed 6% during the month and has gained a healthy double digit return year to date. The S&P 500 gained 3.7% pushing the year to date return to 9.8%. The NASDAQ also posted a 2.6% gain and is up 6.3% this year.

Despite all the anxiety over the election, the U.S. economy continues to grow as third quarter GDP Growth accelerated to 3.2%, up from 1.4% in the second quarter. The U.S. consumer also remains optimistic as indicated by University of Michigan's consumer sentiment reading which came in at 91.6 in November, up from 87.2 the previous month. In addition, existing home sales jumped unexpectedly to a 10 year high in October, further driving prices up. Housing starts also were up 23% year-to-year. Corporate America is also in better shape. After 5 consecutive quarters of decline, companies posted positive earnings during the third quarter, turning earnings growth positive again. Certain aspects of our economy may further be impacted by any potential changes in policy by the new president. Some of the agenda items over the next four years include corporate tax reform, fewer regulations in the financial services industry, as well as trade reform and stonger defense.

	November 2016	YTD
DJIA	5.88%	12.62%
S&P 500	3.70%	9.79%
NASDAQ	2.59%	6.32%
MSCI EAFE	-1.99%	-2.34%
MSCI Emerging Markets	-4.60%	10.94%
Barclays Aggregate	-2.37%	2.50%
Barclays Corp High Yield	-0.47%	15.01%
	11/30/2016	10/31/2016
U.S. 10-Year Treasury Yield	2.37%	1.84%

Along with the Brexit and the U.S. presidential election, the Italian referendum has also been on investors' minds in recent months. On December 4th 2016, Italian citizens voted against the constitutional referendum proposed by Prime Minister Matteo Renzi. As a result, Renzi has announced his resignation, which has led to the euro hitting a 20-month low and volatility increasing in European stock markets. The main concern with the recent vote is that it may give more power to the populist Five Star Movement in Italy, a group that would push for Italy to exit the common currency. Political and market instability in the region is expected to continue over the short term as other European countries prepare for elections/referendums. The MSCI EAFE was down 2.0% in November and has lost 2.3% since the start of the year while Emerging Markets have been down 4.6% but still maintain a double digit gain for the year at 10.9%.

Fixed income returns were negative in November as the Barclays Aggregate Bond Index lost 2.4% and the Barclays U.S. High Yield was down 0.5% but has gained 15.0% so far this year. The 10 Year-Treasury Yield ended the month at 2.37%, up from 1.84% at the end of last month. This increase likely reflects the market's expectations for fiscal policy tightening and higher inflation expectations. During the most recent FOMC (Federal Open Market Committee) meeting, Fed participants made a case to raise rates relatively soon. Full employment, a recovering housing market and improved economic growth all point to a rate hike at the Fed's final meeting of the year in December. Although this move may remove some uncertainty from the markets, more questions remain about the fiscal policy path in 2017.

As we get ready to enter the new year under a new administration, we will continue to get more clarity on new policies and their impact on the economy and the markets. However, despite all the headlines and all the predictions for 2017, it is important to keep in mind that fundamentals are the main driver of market cycles and it is important to invest with a long term horizon in mind and to maintain well diversified portfolios.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measures the value of residential real estate in 20 major U.S. cities.

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