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ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

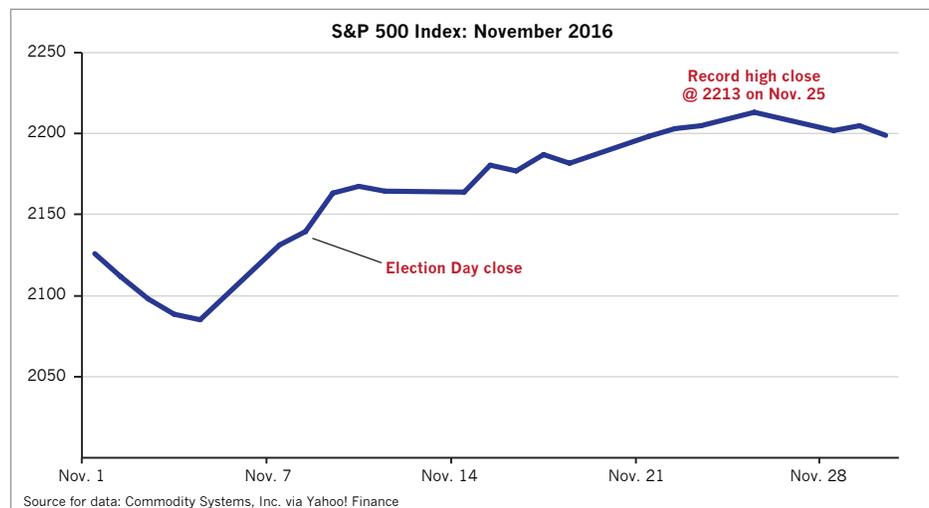
Monthly Economic & Market Update

December
2016

2016 had one more surprise in store for investors, and stocks jumped immediately on the news of Donald Trump's election. But it was the improving economic climate in the U.S. that kept the momentum going throughout November.

Equities:

Stock investors largely cheered Trump's victory, but it was the evidence of improving economic conditions that drove the major U.S. indexes to new highs in November. The Dow Jones Industrial Average crossed the largely symbolic and psychological 19,000-level late in the month. Large-cap stocks as measured by the S&P 500 Index gained 3.7% for the month and small-cap stocks generally benefited from the brighter outlook for the domestic economy. Investors also showed a preference for value stocks, which rose over 6% according to S&P, while growth stocks eked out a 1.2% gain. Performance was noticeably weaker for international stocks—developed markets declined 2% as measured by the MSCI EAFE Index, and the MSCI Emerging Markets Index slid over 5% for the month. Dividend stocks enjoyed a good quarter and performed in line with the broader market, even as traditional income-oriented sectors such as utilities and real estate declined in November.





Sector Performance:

Ranked by previous month total return best to worst

Financials	13.9%	Bank stocks rose on hopes of future deregulation.
Industrials	8.8%	Talk of renewed infrastructure spending boosted construction stocks.
Energy	8.4%	Rising oil prices brightened prospects for this sector
Materials	6.9%	Copper and steel producers spiked on higher expected manufacturing activity
Consumer Discretionary	4.7%	Rising consumer sentiment powered retail sales
Telecom	3.6%	Carriers looking for a lighter regulatory hand from incoming administration
Healthcare	1.9%	Uncertainty about Obamacare's future muddled performance
Technology	-0.3%	Gains for equipment and chip makers offset losses for software firms
Real Estate	-3.1%	Higher interest rates clouding the picture for REITs
Consumer Staples	-4.3%	Suffered as investors moved away from this defensive sector
Utilities	-5.4%	Rising bond yields triggered rotation from these previously high-flying stocks

Source for equity sector total return data: S&P Dow Jones Indices, Index Dashboard: U.S., November 30, 2016

Bonds:

It was a true reversal of fortune for bond investors as interest rates climbed rapidly during the month. The benchmark 10-year U.S. Treasury rate rose from 1.8% on November 1 to nearly 2.4% by the 30th. Much of the jump in yields was attributed to higher inflation expectations. The headline inflation rate (including food and energy prices) was reported at 1.6% for October, a two-year high. The increasing likelihood of a December Fed rate hike also pushed interest rates higher across the board. As yields rose, bond values declined. Losses for the month were more significant in longer-dated securities, which is consistent with expectations during rising rate periods. High-yield bonds managed to claw back some of their declines in the latter half of November and were among the better performing bond investments for the month.





The Economy:

While the outcome of the presidential election dominated headlines, positive news on the economic front continued to rise to the surface. Perhaps the most impressive news was the upward revision to 3rd Quarter Gross Domestic Product—up to 3.2% for the quarter, higher than the initial estimate of 2.9%. U.S. households are feeling the effects of improving conditions in the overall economy—retail sales, durable goods orders and housing starts all rose to multi-month highs in October. This optimism was also reflected in the rebound in consumer sentiment for November, the first reading after the election. With strength rising throughout the U.S. economy, a Federal Reserve rate hike in December is virtually a lock at this point. The one wild card in the deck is President-Elect Trump's economic plan—his pro-business stances are generally supportive of economic growth, but there is much uncertainty about what proposals will actually become reality when he takes office in January.

The Month Ahead:

With the uncertainty about the election now behind us, investors can turn their focus to the improving U.S. economic picture and the renewed prospects for growth in the months to come. A healthy dose of optimism should help keep the current stock market rally moving forward, at least into early 2017. There is a risk that the market may get ahead of itself, especially given the yet-to-be-formed proposals from the incoming Trump administration. Interest rates are expected to continue their climb as well—good news for fixed-income investors who will welcome higher yields, but not so good for companies and households that will see their borrowing costs rise. It's helpful to remember, however, that current interest rates remain below their long-term averages, even with the sharp rise in November.

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