November 2016

Market Index	November Change	Year-to-Date
Standard & Poor's 500	3.7%	9.8%
Dow Jones Industrial Average	5.9%	12.6%
NASDAQ	2.8%	7.7%
Russell 2000 (small company)	11.1%	18.0%
MSCI EAFE (international)	-2.0%	-1.9%
Barclays Aggregate Bond Index	-2.4%	2.5%

Monthly Update

For the first time since 1999, the Dow Jones Industrial Average, S&P 500 Index, NASDAQ Composite, and Russell 2000 Index simultaneously reached record highs in November. The post-election rally in U.S. stocks was accompanied by a sharp spike in interest rates, which drove bond prices lower along with other yield-oriented areas of the market. One of the more notable aspects of the stock market reaction to the election results was the wide dispersion of returns among the sectors. The best performing sector, financials (+13.9%), outperformed the worst performer, utilities (-5.4%), by more than 19%. In addition to financials, industrials and energy stocks led the way. Consumer staples and real estate stocks joined utilities in negative territory at the bottom of the pack.

Small cap stocks handily outperformed mid cap and large cap. The Russell 2000 Index had one of its best months ever, with a gain more typically seen in a rebound after a crash. The strength in small cap reflects its higher sensitivity to events in the U.S. compared to large cap stocks that are more globally diversified. International stocks in developed markets were down, and emerging markets stocks were down sharply in reaction to the election results. Trump's anti-trade views, if implemented, could have a negative effect on emerging market economies that are heavily dependent on exports. China and Mexico are two of the more prominent examples.

Oil prices also jumped near the end of the month based upon an agreement reached by OPEC. Under the agreement, supply would fall as a result of output cuts by member countries. However, it remains to be seen if the countries will follow through on their commitments. In the meantime, oil prices are hovering around $50 per barrel, low enough to benefit consumers with extra spending money, and high enough to sustain most oil companies that survived the difficulties of the past couple years.

The spike in interest rates was significant. The day after the election, the yield of the 10-Year Treasury note rose 0.21%. To put that in perspective, there have only been 19 moves of more than 0.20% in the last 4,395 trading days. Since the election, the yield has risen more than 0.5%, and more than a full percentage point from the lows in July. As a result, November was the 11th worst month since 1976 for the Barclays Aggregate Bond Index, which includes both government bonds and corporate bonds. This index is still up 2.5% for the year.

Cincinnati
3777 West Fork Road | Cincinnati, OH 45247
P. 513.661.3100 | T. 800.541.0170 | F. 513.661.3160

Columbus
100 E. Broad Street, Suite 2300 | Columbus, OH 43215
P. 614.365.9103 | T. 866.365.4523 | F. 614.365.9943

Dayton
40 North Main Street, Suite 2110 | Dayton, OH 45423
P. 937.461.3790 | T. 800.851.9114 | F. 937.461.2969

Monthly Update (continued)

Interest rates are moving higher as the market prices in Trump's proposed policy changes. Cutting corporate and individual taxes, spending billions on infrastructure, and potentially renegotiating trade agreements could lead to a modestly better growth outlook and higher inflation. Most of the recent increase in bond yields can be attributed to higher inflation expectations. Rising inflation expectations are a result of higher growth expectations coupled with an expanding federal debt and deficit. OPEC's agreement and the subsequent rally in the price of oil is also contributing to higher inflation expectations.

After the recent move, interest rates have gone from looking overvalued, when the 10-Year Treasury yielded 1.35%, to a range that appears more fairly valued. That doesn't mean that rates can't continue to move higher, but a disorderly sell off resembling November looks unlikely. Even if rates drift higher over the next year, bond returns are still likely to be above zero. In addition, bonds offer an increasingly attractive hedge against volatility in stocks. In the wake of a month like November, it is important to remember that the long-term benefit of buying bonds at higher yields generally outweighs the short-term pain of rising rates.

All of the market reactions were largely based on the belief that the Republican sweep could bring about several changes supportive of economic growth. Tax cuts and fiscal stimulus, mainly in the form of infrastructure spending, are the two primary catalysts in view. The prospect of one-party government is certainly a far cry from the widely-expected outcome going into the election of a Democratic White House and at least one house of Congress controlled by Republicans. But Congress is likely to temper many of Trump's various campaign proposals, especially those aspects of his plans that significantly widen the deficit. Policy uncertainty is significant despite the fact that Republicans control Washington.

Whatever happens, it will be difficult for politicians to significantly boost growth given where the economy is today. There are other factors at play that could serve to offset the benefits of meaningful fiscal reform. The labor market is fairly strong and there isn't a lot of slack in the overall economy. The most recent reading of the unemployment rate is at a new cycle-low of 4.6%. It's unlikely that fiscal stimulus at this stage of the economic cycle would be as impactful as it would be in the throes of recession. In addition, rising interest rates, Fed tightening, high amounts of leverage, and rising inflation would have to be overcome. Tariffs and immigration restrictions could also hamper growth

As the transition from the Obama administration to the Trump administration continues, December will bring a few other key events to watch. Central banks will again be under the microscope, with both the European Central Bank and the Federal Reserve holding meetings. The Fed meeting will be followed by a press conference with Fed Chair Janet Yellen. The market almost universally expects the Fed to raise rates, but investors will be particularly focused on the vote tally among the committee members and Yellen's comments on how a Trump presidency affects the Fed's outlook.