

## Stocks Weaken Ahead of 2016 Elections

**October 31, 2016** U.S. stocks ended lower four out of the five trading session last week, culminating in Friday’s reversal after the FBI was rumored to be reopening the investigation into Hillary Clinton’s use of an unauthorized email server. In a letter to Congress, FBI Director James Comey said additional Clinton-related emails were discovered during a separate investigation of Clinton aide Huma Abedin’s estranged husband, former Congressman Anthony Weiner (NY, D). Bonds rose, while the US dollar weakened, as did the odds for a Federal Reserve rate hike this year. Equities had earlier traded higher on enthusiasm over a preliminary reading of third quarter GDP growth came of 2.9%, the fastest pace of economic expansion since mid-2014.

Other key economic data last week showed the PMI indicator of U.S. manufacturing climbed to 53.2 in October from 51.5, and home prices, as measured by the S&P CoreLogic 20-city Home Price Index, rose 5.13% from a year ago. New Home Sales rebounded last month, rising 3.1% after an 8.6% decline the prior month. The Conference Board’s Consumer Confidence Index retreated ahead of the elections, falling to 98.6 this month from a revised 103.5 level in September. Lastly, weekly new claims for unemployment benefits fell to 258,000, the 86<sup>th</sup> consecutive week below the 300,000 level.

For the week, the S&P 500 fell 0.67%, its fourth weekly loss, the Dow Industrials inched up 0.9% and the NASDAQ Composite retreated 1.27%. Six of the 11 major sector groups ended negative, with Healthcare (-2.18%), Energy (-0.43%), and Financials (-0.39%) falling the most. Industrials (+0.65%) and Consumer Staples (+0.47%) led among gainers. The US Dollar Index weakened by 0.351% last week, snapping three weeks of gains, ending at 98.348. Oil prices slumped by 4.23% last week, ending at \$48.70/barrel on concerns that OPEC member nations may not fully agree on their pledge to cut output. Treasury securities advanced last week, pushing the yield on 10-year Treasury notes up 11.2 basis points to 1.848%, the highest since May.

### What We’re Reading

**Comey’s FBI October Surprise** [↗](#)

**Eurozone 3Q GDP Holds Steady, Up 0.3%** [↗](#)

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### Week’s Economic Calendar

**Monday, October 31:** Personal Incomes & Outlays, Chicago PMI, Dallas Fed Mfg;

**Tuesday, November 1:** PMI Mfg Index, ISM Mfg Index; Constructions Spending;

**Wednesday, November 2:** ADP Private Jobs Report, FOMC Meeting Decisions;

**Thursday, November 3:** Jobless Claims, Productivity & Costs, Factory Orders, ISM Non-Mfg;

**Friday, November 4:** October Non-Farm Payrolls, International Trade.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.09%	-0.80%	-1.60%	4.22%	2.14%	5.27%
S&P 500	-0.67%	-1.81%	-1.49%	5.88%	3.98%	8.73%
NASDAQ Composite	-1.27%	-2.25%	0.97%	4.68%	3.13%	10.95%
Russell 3000	-0.90%	-2.22%	-1.63%	5.78%	3.57%	7.95%
MSCI EAFE	-0.39%	-2.06%	1.07%	-0.37%	-3.49%	-1.52%
MSCI Emerging Markets	-0.84%	0.06%	3.63%	16.09%	7.49%	-2.10%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.50%	-0.84%	-0.75%	4.90%	3.99%	3.43%
Barclays Municipal	-0.15%	-1.13%	-1.44%	2.84%	3.90%	4.93%
Barclays US Corp High Yield	-0.47%	0.65%	3.33%	15.86%	10.42%	4.70%

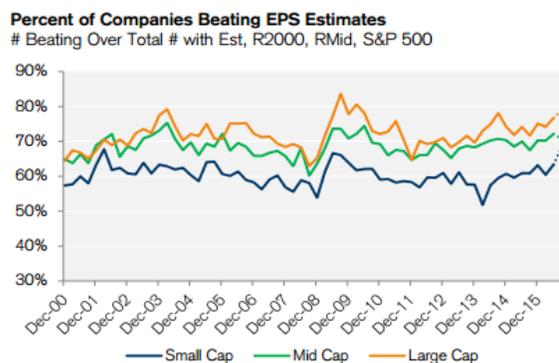
  

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.22%	0.69%	3.10%	9.63%	-1.70%	-12.09%
S&P GSCI Crude Oil	-4.23%	0.95%	18.38%	31.48%	6.00%	-20.97%
S&P GSCI Gold	0.72%	-3.06%	-4.80%	20.43%	8.54%	-1.89%

Source: Morningstar

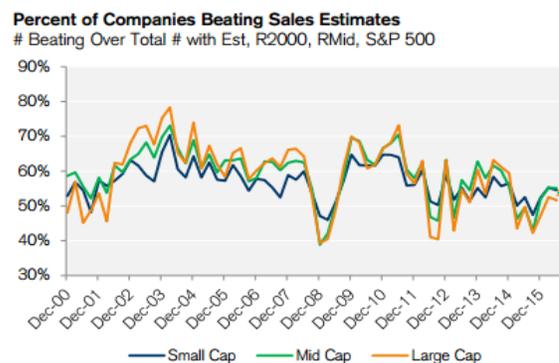
## Chart of the Week: Earnings Review: Large Caps Reporting Best

**Figure 5: EPS Beats Over Time By Size Index**



Source: CS US Equity Strategy, Russell, S&P Capital IQ/ClariFi, 10/26/2016

**Figure 6: Revenue Beats Over Time By Size Index**



Source: CS US Equity Strategy, Russell, S&P Capital IQ/ClariFi, 10/26/2016

With the third quarter 2016 earnings season about halfway complete, a review by Credit Suisse shows that 79% of S&P 500 large cap equities, 71% of Russell mid caps and 68% of Russell 2000 small caps have surpassed analysts' consensus earnings per share (EPS) estimates. What's more, 60% of respective large caps, 50% of midcaps and 54% of small caps have beaten analysts' consensus revenue estimates. Please note that results are still preliminary and may change as more companies report results.

For large caps, EPS and sales “beats” still look strong relative to history. As the Figure 5 chart (previous page) shows, EPS beats are up from last quarter and are near 2014 highs. Large cap sales beats, as conveyed by Figure 6, have come in a bit over the past week, but are still very strong relative to last reporting season. Small and mid cap results are more mixed. Small cap EPS beats are up from last reporting season, but midcap EPS beats, midcap sales beats and small cap sales beats are down slightly.

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*This report is created by Tower Square Investment Management LLC*

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## Glossary

The **Barclays U.S. Aggregate Bond Index** is an unmanaged index composed of Barclays Credit government bond index, mortgage backed securities index, and asset backed securities index and is generally representative of the US Bond market.

The **Barclays U.S. Corporate High Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

The **Barclays U.S. Municipal Bond Index** is an unmanaged, market-value-weighted index of investment-grade municipal bonds with maturities of one year or more.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Since its introduction in 1993, VIX has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **CRB Index** is a pricing index that measures changes in the price of 22 commodities that are believed to be among the first to react to changes in economic conditions.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Hang Seng Index** is a market capitalization weighted index of the stocks of the 33 largest companies in the Hong Kong market. The Hang Seng Index is a price weighted/share price index which measures movements in the prices of shares, but not of their dividends.

The **MSCI EAFE Index** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

**MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **NASDAQ 100 Index** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No individual listing can have more than a 24% weighting. Launched on February 1, 1985, the index carried a base value of 125.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The **Producer Price Index** is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPIs measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The **S&P GSCI Gold Index**, a sub-index of the S&P GSCI, provides investors with a reliable and publicly available benchmark tracking the COMEX gold future.

The **S&P GSCI Crude Oil Index** is a sub-index of the S&P GSCI and provides investors with a publicly available benchmark for investment performance in the crude oil market.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.