



WEEKLY MARKET UPDATE

January 17, 2017



Earnings Season Begins Amid High Expectations and Political Uncertainty

Last week kicked off earnings reporting for the 4th quarter of 2016. Most equity markets fell slightly, with the S&P 500 returning -0.1% and the Dow Jones Industrials -0.4%. Equity returns appear to be normalizing after the first month of the 'Trump Rally' where the S&P 500 returned 5.2%, but only 1.4% since. The same has been true in the small- and mid-cap space, as the S&P 1000 Index returned 14.0% the first month, and -1.4% since.

The week's modest advance masked some bouts of significant volatility, as biotech stocks found themselves in the crosshairs of the President-Elect. The Nasdaq Biotechnology Index plunged as much as -3.2% during the President-Elect's first press conference since the election. Trump vowed to "create new bidding procedures for the drug industry," which he accused of "getting away with murder." Fortune calculated that the nine largest pharmaceutical firms declined by almost \$25 billion in market value following the comments. **Interestingly, many biotech names did recover to close the week slightly positive.**

Meanwhile, Congress got down to new business, with both the Senate and House

of Representatives passing a budget reconciliation bill which could pave the way for a quick repeal of Obamacare after this Friday's Presidential Inauguration. With a new administration taking the reins of government this Friday, **investors expect a flurry of political activity in the next few months which will likely impact equity markets.** Some major campaign promises from the President-Elect include the aforementioned repeal of Obamacare along with a replacement plan, personal and corporate tax reform, swaths of deregulation, and significant trade negotiations. Time will tell on how many of these promises become policy, and how quickly.

Markets were aided, again, by bits of positive economic data. The government reported on Friday that retail sales rose a solid 0.6% in December, with gains concentrated in autos, furniture, and online sales. The news was particularly welcome in light of major store closing announcements the previous week from Macy's and Sears, although it also highlighted the way **changes in the economy are taking a toll on some firms while rewarding others.** The University of Michigan's gauge of consumer sentiment, also released Friday, unexpectedly ticked lower but remained near

INDEPENDENT TRUSTED PERSONALIZED

its highest level since the financial crisis.

Continuing with positive data from the markets, mega-cap banks Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co. all had positive quarterly earnings news (as did Morgan Stanley this morning). The sector continued to profit from higher interest rates, higher lending margins, and anticipated deregulation.

With expectations for stronger earnings growth in the new year embedded in equity

prices, many investors remain concerned that further upside is therefore limited. A possible note of caution: as of the end of the week, analysts polled by data and analytics firm FactSet were predicting an overall year-over-year increase in fourth-quarter earnings for the S&P 500 of 3.2%, only slightly higher than the previous quarter.

[Visit our Blog](#)



DISCLAIMER

The enclosed commentary and analysis represent the personal and subjective views of Madison Park Capital Advisors ("MPCA"), and are subject to change at any time without notice. The information provided is obtained from sources which MPCA believes to be reliable. However, MPCA has not independently verified or otherwise investigated all such information. MPCA does not guarantee the accuracy or completeness of any such information. This publication is not a solicitation or offer to buy or sell any securities.

All investing is subject to risk, including possible loss of principal. Diversification does not ensure a profit or protect against a loss. There is no guarantee that any particular asset allocation or mix of funds will meet your investment objectives or provide you with a given level of income against a loss.

