PATTERSON WEALTH MANAGEMENT
400 CHESTERFIELD CENTER, STE. 400
CHESTERFIELD, MO 63017

WWW.PATTERSONWEALTHMANAGEMENT.COM
JPATTERSON@PATTERSONWEALTHMANAGEMENT.COM

DIRECT: 636-537-7839
TOLL FREE: 866-405-9596
FAX: 636-532-6890
CELLULAR: 314-477-1686

November 21, 2016 Dow Jones Industrial Avg.: 18,867

Trump Presidency and the Irony of the Stock Market

The month of November has not been boring. On November 9, 2016, the United States got a new president-elect, and the market after falling 700 points in the "overnight" electronic markets, opened up at 8:30 CST relatively unchanged. The Dow Jones Industrial Average (DJIA) closed on November 8, 2016, (Election Day) @ 18,332, and after the market digested the news of the presidency, **the DJIA closed November 9, 2016, +257, closing at @ 18,589**. After seven trading days, the DJIA has now moved up in value by 3.2% (after hitting a high of 18932).

The "Irony of the Stock Market" is that most of the media pundits were caught flat-footed with the Trump victory, along with most stock market strategists that were interviewed on CNBC. Before the election, every time Trump started to move higher in the "polls" the market would sell-off…and, then as the election got closer and the polls looked like Hillary Clinton was going to win- the market would recover from the earlier sell-off.

> After Trump's victory, the same market strategists and economists that were downplaying the implications of a Trump win…suddenly came to embrace the idea that tax cuts, the potential "repatriation" (return of corporate cash to the U.S. which is currently held in overseas banks), and less burdensome regulations could be a potential "boon" for the equity markets.

Less than two weeks after the contentious election, the DJIA hit an all-time high on the 15th of November: 18932.

After the election, the stock market has seen a short-term stock rotation out of the technology sector, which had been the main sector for growth in 2015, into four main sectors:

- Bank / Financial stocks…Implication: potentially the repeal of onerous regulations

- Infrastructure / Material stocks…Implication: hopes for a stimulus / infrastructure program

- Healthcare stocks…the sector was beaten up by Hillary Clinton. Implication: companies can increase prices, if warranted, without a huge political backlash. Secondarily, the repeal of "Obama Care" might be a positive for selected healthcare companies.

- Aerospace and Defense…Implication: a build-up of the military is expected

Another Side-note of Irony: I remember watching the "Half-Time Report" on CNBC (October 27, 2016), and Scott Wapner (anchor of the show) was interviewing Kevin O'Leary (one of the financiers on CNBC "SHARK TANK"), and Kevin was asked if he was investing for a Hillary Clinton victory, in light of the recent polling…his reply was pretty direct: {paraphrasing} "No way! I got screwed by investing in Britain earlier in the summer [after listening to the polling data] and THEN again in the Mexican elections…I don't trust polls anymore". ***He said that he lost serious money each time by trusting the polling data.***

So, where do we go from here???

Equity Markets: Stocks

There seems to be a fresh optimism within the market about the potential of the U.S. economy to grow at a faster rate than the 1.5% growth rate that the economy has been experiencing under the previous administration. **I am very positive on the market over the next few months.** I believe that there was a lot of money sitting on the sidelines waiting to see where the election was going to end up, which will make its way into the stock market. Additionally, I think the sector that was recently sold-off (Technology Sector) looks to be a strong sector for growth, regardless of the short-term volatility.

Credit Markets: Bonds / Interest Rates

I believe the biggest risk to the equity markets will be the response to any rise in interest rates. It seems that the equity markets are comfortable with an interest rate hike in December 2016, but the timing and response of the subsequent hikes may be more questionable. The market fell dramatically in January and February of 2016 after the Federal Reserve raised interest rates, so the market reaction to future interest rate hikes in 2017 is (in my opinion) the big risk to the upward trajectory of the stock market.

Regarding the recent rise in interest rates: the 10-year Treasury was at 1.86% on November 8th, and is now 2.33%...an increase of 25%. My near-term expectation is that interest rates will retreat once the Federal Reserve raises the short-term interest rates in December.

> Near-term history has shown that with the majority of developed countries operating at negative interest rates (Japan, Germany, and Switzerland), there tends to be a major influx of foreign dollars that buy the U.S. Treasury bonds.
>
> A statistic that was thrown out by one of Fidelity Investments market strategist (Dr. Claus te Wildt) in June was that 80% of the buying of U.S. Treasury bonds came from International Buyers…due to the fact that the U.S. is paying a positive rate of interest. Case in point: after the Federal Reserve raised interest rates in December 2015, the 10-year Treasury on January 4th was trading at 2.13%...by July 3, 2016, the 10-year Treasury was at 1.36%.
>
> ***As the buying of US Treasury bonds increases (by foreign buyers)…the price of the bonds will increase on the bonds, which has the effect of pushing down the overall interest rates.***

Bottom-line: interest rates may have gone up fairly dramatically after the presidential election, but I am anticipating that interest rates will work themselves back down after the December rate hike.

I hope everyone enjoys a festive Thanksgiving and a joyous holiday season!

If I can answer any questions or assist in any way, please do not hesitate to contact my office.

The information contained herein is based on sources we believe to be reliable. But its accuracy is not guaranteed. Past performance is no guarantee of future results. The information provided herein was supplied in good faith based on information, which we believe, but do not guarantee, to be accurate or complete; however we are not responsible for errors or omissions that may occur.

The views expressed in this report are solely the opinions of Jeff Patterson / Patterson Wealth Management, and are not endorsed by Securities America Inc., or Pershing LLC.

NOT FDIC INSURED * NOT BANK GUARANTEED * MAY LOSE VALUE
Securities offered through Securities America, Inc., Member FINRA/SIPC, Jeff Patterson, Registered Representative. Advisory services offered through Securities America Advisors, Inc., Jeff Patterson, Financial Advisor. Patterson Wealth Management and the Securities America companies are unaffiliated.