Best Week for Dow Industrials in Five Years

November 14, 2016 - U.S. stocks posted strong gains last week following the unlikely election sweep by Republicans, with Donald Trump winning the title of president-elect and the GOP successfully holding the majority in both houses of Congress. Stocks rose on Monday and Tuesday on speculation Hillary Clinton would win the presidency, then posted more heady gains the remainder of the week as investors quickly warmed to Donald Trump's fiscal spending plans, most notably, his infrastructure plans. The Dow Industrials surged over 959 points, its best week in five years, and posted two consecutive all-time highs in the process. Unlike the Dow Industrials finishing higher all five days, the S&P 500 edged lower on Friday as investors pared gains on banks; but even so the group surged 11%, its strongest week since 2009.

In economic news, the Federal Reserve's Labor Market Conditions Index rebounded in October, rising by 0.7 index points, following a revised 0.1 point decline in September. The NFIB's Small Business Optimism Index rose to 94.9, topping projections for 94.1, and Labor Department officials said job opening increased from 5.45 in August to 5.49 million in September, in line with forecasts. Finally, the University of Michigan's preliminary November reading of consumer confidence rebounded from a two-year low to reach a five-month high. An accompanying reading of inflation expectations rose the most since early 2015.

For the week, the S&P 500 swept to a 3.9% gain, its largest since October 2014, the Dow Industrials surged 5.4% to its best weekly gain since December 2011, and the NASDAQ Composite added 3.8%. Eight of the 11 major sector groups posted gains last week, with Financials (+11.4%), Industrials (+8.1%), and Healthcare (+5.9%) rallying the most. Defensive-oriented stocks underperformed, with Utilities (-3.9%), Consumer Staples (-2.1%), and Telecom (-0.1%) all lagging. By market capitalization, small-cap stocks performed best, with the Russell 2000 leaping 10.2% on the week. The US Dollar Index posted its strongest weekly gain since 2011, rising nearly 2.1% to 99.060. Meanwhile, the MSCI Emerging Markets Index fell 3.5% to its lowest level since July 11th. Treasury securities prices retreated, sending the yield on 10-year Treasury notes spiraling 37.4 basis points higher to 2.151%.

What We're Reading

The Trump Stock Rally ↗

Bonds Bloodied on Trump Inflation Outlook ↗

Commodities' Trump Effect ↗

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Week's Economic Calendar

Monday, November 14: No major economic releases;

Tuesday, November 15: Retail Sales, Empire State Mfg, Import/Export Prices, Business Inventories;

Wednesday, November 16: Producer Prices, Industrial Production, Housing Market Index;

Thursday, November 17: Jobless Claims, Consumer Price Index, Housing Starts, Philly Fed Outlook;

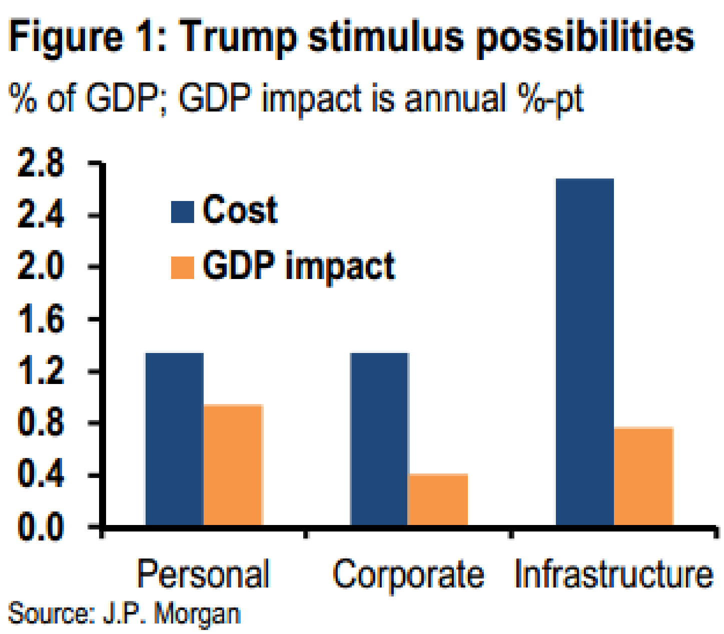
Friday, November 18: Leading Indicators, Kansas City Fed Mfg Index.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	5.36%	3.89%	1.26%	8.16%	6.46%	6.09%
S&P 500	3.87%	1.92%	-0.46%	7.90%	6.60%	9.18%
NASDAQ Composite	3.79%	1.01%	0.46%	5.72%	4.65%	11.47%
Russell 3000	4.39%	2.38%	-0.06%	8.36%	6.70%	8.71%
MSCI EAFE	0.10%	-1.46%	-3.47%	-1.81%	-3.16%	-1.42%
MSCI Emerging Markets	-3.51%	-6.16%	-6.10%	9.13%	4.28%	-2.80%
Bonds						
Barclays Agg Bond	-1.37%	-1.32%	-2.20%	3.60%	3.75%	3.30%
Barclays Municipal	-0.92%	-0.81%	-2.17%	2.09%	3.72%	4.78%
Barclays US Corp High Yield	-0.19%	-0.93%	1.11%	14.48%	10.13%	4.33%
Commodities						
Bloomberg Commodity	-1.10%	-2.96%	-1.82%	5.13%	-1.20%	-12.53%
S&P GSCI Crude Oil	0.18%	-5.78%	-0.18%	19.20%	0.46%	-22.63%
S&P GSCI Gold	-5.95%	-3.63%	-9.12%	15.72%	13.01%	-1.45%

Source: Morningstar

Chart of the Week: Making America "Spend" Again



We believe it is premature to make overly strong judgments on how President-elect Donald Trump's surprising presidential victory will alter the economic outlook. At this point, despite his announced economic goals, there are few actual details about his policy agenda, priorities, or what could be delivered through a fragile coalition of Congress. Accordingly, JPMorgan shared that they had not yet made material changes to their views for the global or U.S. economy this past week; however, it is not too early to recognize that there will be a break from the recent past as the constraints of a more divided government are removed. While achieving consensus likely will be more difficult than the initial market response may suggest, broad changes to fiscal, trade, and regulatory policy are possible if intraparty consensus can be achieved.

Understanding the new administration's priorities is particularly important as there are significant cross-currents associated with Trump's campaign platform. If he prioritizes tax cuts and infrastructure spending, and he can successfully negotiate these through Congress, it should boost growth. This could be reinforced by some of his proposed shifts in regulatory policy. However, a focus on trade and immigration restrictions likely would slow the economy. While not yet changing forecasts, JPMorgan believes that GDP shifts will be greatest in the fiscal and regulatory spheres. Tax reform and shifts in regulation on health care, energy, and the financial sector have been longstanding priorities for a Republican Congress that align with Trump's campaign promises. It should be noted that a move toward revoking treaties or imposing tariffs does not have Congressional support. Averting a damaging trade war also would protect an important element of the population that delivered a Republican victory—rustbelt manufacturing workers. Although not cast in stone, Figure 1 on the previous page, shares JPMorgan's possible GDP stimulus effects resulting from a Trump Administration.

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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 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.*