

## Small Cap Stocks Lead Second Weekly Advance

**November 21, 2016** - U.S. stocks rose for a second week, extending the rally resulting from Donald Trump's surprise election as investors speculate the president-elect's developing policies will encourage faster-paced growth. The S&P 500 has added nearly 3% since Election Day, led by a surge in financial and industrial shares. Last week's more subdued gains came about as Wall Street transitions from initial election euphoria to current market fundamentals. Excessive U.S. dollar strength had varying effects last week. Whereas Financials and Industrials had surged over 11% and 8.1% respectively the week prior, they rose 2.3% and 0.4% respectively this week. Healthcare stocks, which rallied 5.9% the week before, fell 1.1% last week. Small-caps stocks, as measured by the Russell 2000 Index, have benefited most, rallying 2.6% last week and up 13.8% over the past 11 days.

In key economic news, Retail Sales jumped 0.8% in October, surpassing forecasts and, together with an upward revised 1% gain the prior month, it was the largest two-month increase since March-April 2014. Core wholesale prices, which exclude volatile food and energy costs, declined 0.2% last month, while industrial production was unchanged. Housing starts surged 25.5% to a nine-year high in October, rebounding from a revised 9.5% drop the month prior. Consumer prices show increased traction, rising 0.4% last month, while core prices rose just 0.1%.

For the week, the S&P 500 rose nearly 1% (+0.98%), the Dow Industrials extended gains by 0.51%, and the NASDAQ Composite jumped 2.47%. Nine of the 11 major sector groups posted gains last week, led by Telecom (+3.02%), Financials (+2.26%), and Energy (+2.13%). As mentioned, Healthcare (-1.11%) fell the most, followed by Consumer Staples (-0.11%). The US Dollar Index strengthened by 2.1%, matching the same increase the week prior. Treasuries continued its downward price trend, sending the yield on 10-year Treasury notes up 20.5 basis points to 2.356%.

### What We're Reading

[\*\*Deutsche Bank on Trump Corporate Taxes ↗\*\*](#)

[\*\*Britain Seeks Corporate Tax Cut ↗\*\*](#)

[\*\*OPEC May Cut Production by November 30 ↗\*\*](#)

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### Week's Economic Calendar

**Monday, November 21:** Chicago Fed National Activity;

**Tuesday, November 22:** Existing Home Sales, Richmond Fed Manufacturing Index;

**Wednesday, November 23:** Durable Goods Orders, Jobless Claims, PMI Mfg., New Home Sales, Consumer Sentiment;

**Thursday, November 24:** Thanksgiving Day Holiday (all markets closed);

**Friday, November 25:** International Goods Trade, Markit PMI flash Services Sectors Activity; Early market close, 1 pm ET.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.51%	4.20%	1.78%	8.49%	8.07%	5.80%
S&P 500	0.98%	3.06%	0.76%	9.11%	9.02%	9.03%
NASDAQ Composite	2.47%	2.95%	2.33%	7.75%	8.31%	11.54%
Russell 3000	1.47%	3.76%	1.43%	9.82%	9.49%	8.63%
MSCI EAFE	-0.73%	-1.85%	-3.50%	-2.19%	-3.05%	-1.90%
MSCI Emerging Markets	-3.23%	-6.36%	-6.54%	8.90%	5.22%	-3.27%

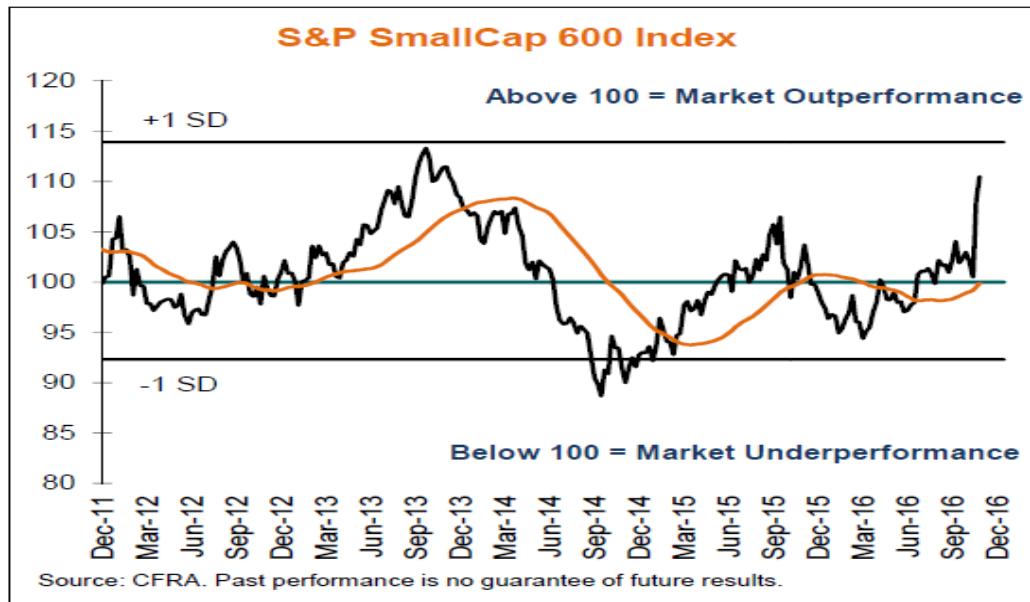
Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.70%	-2.01%	-2.70%	2.87%	2.77%	2.91%
Barclays Municipal	-1.56%	-2.35%	-3.81%	0.50%	1.83%	4.20%
Barclays US Corp High Yield	-0.20%	-1.12%	0.36%	14.26%	10.63%	4.21%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-1.32%	-2.54%	-3.58%	5.59%	1.50%	-12.32%
S&P GSCI Crude Oil	1.68%	-1.88%	-3.24%	24.14%	10.22%	-21.34%
S&P GSCI Gold	-3.90%	-4.20%	-9.58%	15.03%	14.06%	-1.81%

Source: Morningstar

## Chart of the Week: Can Small Cap Strength Last?



The S&P SmallCap 600 soared 10.6% in the days between November 8<sup>th</sup> and 18<sup>th</sup>. It was the best performing benchmark return within the S&P Composite 1500, as the S&P MidCap 400 gained 6.1%, and the S&P 500 rose 2.0%. CFRA Research, the new parent of S&P Global Intelligence, believes these performances are based on two things: 1) the exiting of positions placed ahead of the then highly-expected Democratic victory, and 2) the speculation that on a macro level President-elect Trump's policies will lead to higher U.S. GDP and EPS growth. The first question on many investors' minds is "Will it last?" Will investors continue to favor small-cap stocks, due

to their limited fallout from a strengthening dollar? Certainly, a shift in sentiment has occurred, which could carry on to the end of the year. However, CFRA Chief Investment Strategist Sam Stovall believes that in many cases, such moves have been too far, too fast.

Granted, the S&P SmallCap 600 just underwent an 8% pullback in price from September 7<sup>th</sup> through November 3<sup>rd</sup> and later got back to breakeven on November 11<sup>th</sup>. The index has advanced nearly 3% since then. In all, the S&P SmallCap 600 is up 14% from its pullback low. Up until election day, the S&P SmallCap 600 was trading in line with the S&P 500 on a trailing 52-week relative strength basis, but since then, as the chart above shows, the small-cap index's relative performance has shot up to nearly one standard deviation above its 20-year average. We think it would be unrealistic to believe that this parabolic advance will continue. According to Stovall, a settling down will need to occur, before a more sustainable upward sloping trajectory can be again be established – “as our forecast projects the S&P Small-cap 600 should see EPS growth of 18.7% in 2017 versus 11.7% for the S&P 500.”

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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 SmallCap 600** measures the small-cap segment of the U.S. equity market. Introduced in 1994, the index is designed to track the performance of 600 small-size companies in the U.S., reflecting this market segment's distinctive risk and return characteristics. The index measures a segment of the market that is typically known for less liquidity and potentially less financial stability than large-caps, the index was constructed to be an efficient benchmark composed of small-cap companies that meet investability and financial viability criteria.

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.*