

Stocks Trim Best Annual Performance in Two Years

January 3, 2017 - The S&P 500 ended a solid year with a third weekly loss in the past five, trimming its 2016 total return to 11.96%, its strongest annual performance in two years. Also inclusive of dividends, the Dow Industrials surged 16.50% in 2016, its best year since 2013, while the NASDAQ Composite returned 8.87%. Treasuries capped its second straight weekly gain since the election, ending the year at 2.445%, up 17.5 basis points over the past 12 months. The last week of the year was marred by mixed economic data and geopolitical tensions. President Obama announced a series of strong sanctions against Russia, expelling 35 suspected spies from the U.S. and closed Russian conclaves in response to alleged computer hacking surrounding the U.S. presidential election. Investors had also turned cautious, recalling a five-year trend whereby the S&P 500 reversed direction in the first week of January from a typical bullish orientation during December.

In key economic reports last week, the Case-Shiller 20-City Home Price Index increased 0.6% in October, and increased by 5.1% on a year-over-year (YoY) basis. The Federal Reserve reported that manufacturing activity improved in its Richmond and Dallas Fed districts, while the National Association of Realtors (NAR) said pending used home sales declined by 2.5% in November, exceeding projections of a 0.5% pullback. NAR officials noted a sudden increase in home lending rates, but still expect 5.42 million home sales in 2016, up from 5.25 million in 2015, then the strongest sales pace since 2006.

For the week, the Dow Industrials fell by 0.86% for its first weekly decline since the election, the NASDAQ Composite fell 1.43% and, as mentioned, the S&P 500 fell 1.08%. Ten of the 11 major sectors ended negative last week, with Technology (-1.45%), Financials (-1.37%), and Consumer Discretionary (-1.32%) falling the most. Real Estate was the only sector to post a weekly gain, up 1.33%. The US Dollar Index ended the week down 0.07% at 102.21, while gold futures advanced, ending seven weeks of declines. Crude oil rose 70-cents last week, closing at a fresh 17-month high of \$53.72/barrel.

What We're Reading

Dow Industrials Gain Most Since 2013 ↗

Will the Historical GOP Trend Change? ↗

Oil Pivots Lower in 2017 Start ↗

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Week's Economic Calendar

Monday, January 2: New Year's Day holiday observed; all markets closed;

Tuesday, January 3: PMI Mfg.; ISM Mfg., Construction Spending;

Wednesday, January 4: MBA Mortgage Applications, ADP Private Jobs, FOMC Minutes;

Thursday, January 5: Jobless Claims, Chain Store Sales, Challenger Job Cuts, PMI Services, ISM Non-Mfg. Index;

Friday, January 6: Jobless Claims, Chain Store Sales, Challenger Job Cuts, PMI Services, ISM Non-Mfg. Index;

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	-0.86%	3.34%	7.94%	13.42%	12.24%	6.19%
S&P 500	-1.08%	1.98%	3.82%	11.96%	10.88%	9.02%
NASDAQ Composite	-1.43%	1.19%	1.66%	8.87%	7.60%	10.34%
Russell 3000	-1.05%	1.95%	4.21%	12.74%	11.67%	8.58%
MSCI EAFE	0.61%	3.42%	-0.71%	1.00%	0.35%	-1.57%
MSCI Emerging Markets	2.67%	0.22%	-4.16%	11.19%	11.54%	-2.53%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.66%	0.14%	-2.98%	2.65%	2.83%	2.99%
Barclays Municipal	0.38%	1.17%	-3.62%	0.25%	0.26%	4.13%
Barclays US Corp High Yield	0.23%	1.85%	1.75%	17.13%	17.14%	4.67%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.43%	1.80%	2.66%	11.77%	12.41%	-11.58%
S&P GSCI Crude Oil	1.32%	8.66%	11.36%	45.03%	46.66%	-18.51%
S&P GSCI Gold	1.60%	-1.89%	-12.56%	8.63%	8.65%	-1.46%

Source: Morningstar

Chart of the Week: S&P 500 Earnings Growth Estimates

Chart 1

S&P 500 2017 EPS Growth Estimates

S&P 500 Sector	Year-Over-Year % Changes				
	Q1E	Q2E	Q3E	Q4E	Year
Cons. Disc.	3.3	4.6	8.4	14.8	7.8
Cons. Staples	7.8	7.0	6.5	9.6	7.7
Energy	NM	450.9	194.2	121.6	305.7
Financials	17.5	10.4	6.4	13.1	11.6
Health Care	4.6	5.0	7.9	11.9	7.3
Industrials	2.7	(2.4)	1.8	12.0	3.3
Info. Tech.	15.9	11.9	8.9	10.1	11.5
Materials	20.7	13.6	11.4	23.9	17.0
Real Estate	7.5	0.6	8.7	16.2	8.2
Telecom Svcs	(1.4)	6.8	2.5	6.8	3.5
Utilities	0.1	(5.6)	(3.7)	5.7	(1.4)
S&P 500	13.5	10.1	9.4	14.1	11.8

Source: S&P Capital IQ.

With the Dow Industrials flirting with the 20,000 level, CFRA/S&P reminds us that millennium and century marks on major stock indices have traditionally acted like rusty doors, requiring several attempts before finally swinging open. Therefore, it should come as no surprise if stocks take a breather to digest recent gains. However, CFRA Chief Strategist Sam Stovall said individual

investors may be inclined to sell in the New Year, as they would likely prefer to trigger a taxable event when their obligation to Uncle Sam may come at a lower rate.

In Chart 1, CFRA/S&P shares its 2017 quarterly earnings forecasts broken down for each of the 11 major sector groups. Quite notable is the huge triple-digit earnings growth within the Energy sector and the four instances of red-colored earnings slowdowns forecasted for Industrials, Telecom and Utility sectors. On an overall basis, CFRA/S&P is estimating 2017 earnings growth of 11.8% for S&P 500 companies.

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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.*