Weekly
VANTAGE POINT

November 28 – December 2 , 2016
Recap

Stocks End the Week Down, Ending Three Week Rally

December 5, 2016 - U.S. stocks ended lower last week, snapping three straight weekly gains, as a surge in oil and energy producers was insufficient to offset weakness in Technology and uncertainty about Sunday's referendum vote in Italy. Energy shares were the week's best performers after OPEC member nations agreed to reduce oil output by 1.2 million barrels per day for six months beginning in January. U.S. oil futures surged 12% to $51.68/barrel last week, its largest weekly advance since 2009. Nervousness prevailed over Wall Street as Italians prepared to vote on Sunday on constitutional reforms. In the end, voters rejected Prime Minister Matteo Renzi's backed referendum for a constitutional change to overhaul Italy's legislature to make lawmaking easier by reducing the number of law makers. He announced his resignation today.

The most important economic news last week was Friday's key non-farm payrolls report showing 178,000 new jobs were added in November, exceeding economists' consensus forecast of 165,000. Also positive, the unemployment rate fell by 0.3% to 4.6% last month, the lowest jobless rate since August 2007. Yet investors were ambivalent as revisions for the prior two months subtracted 2,000 jobs and 4,000 manufacturing jobs were lost. Investors were also disappointed that average hourly wages declined 0.1% in November to $25.89, the first monthly decline in worker pay since December 2014.

For the week, the S&P 500 ended the week down 0.9%, the Dow Industrials edged 0.2% higher, and the NASDAQ Composite lost 2.6%. In sector performance, Energy (+2.6%), Financials (+0.9%), and Materials (+0.7%) were among last week's gainers, while Technology (-2.9%) and Consumer Discretionary (-1.9%) under preformed. Gold edged 0.3% lower on the week, its fourth weekly decline, while zinc and other base metals posted their first weekly drop in seven weeks. Treasury securities fell in price for a fourth week, pushing yields to year-high levels. The yield on 10-year Treasury notes ended Friday at 2.390%, just below a 17-month high of 2.443% on Thursday.

What We're Reading

November Payrolls Underwhelm ↗

Italian Prime Minister Matteo Renzi to Step Down ↗

OPEC's Oil Roller Coaster Seen Continuing↗

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Week's Economic Calendar

Monday, December 5: PMI Services, ISM Non-Mfg, Labor Market Conditions;

Tuesday, December 6: U.S. Trade Deficit, Worker Productivity, Factory & Durable Goods Orders;

Wednesday, December 7: Mortgage Applications, JOLTS;

Thursday, December 8: Jobless Claims;

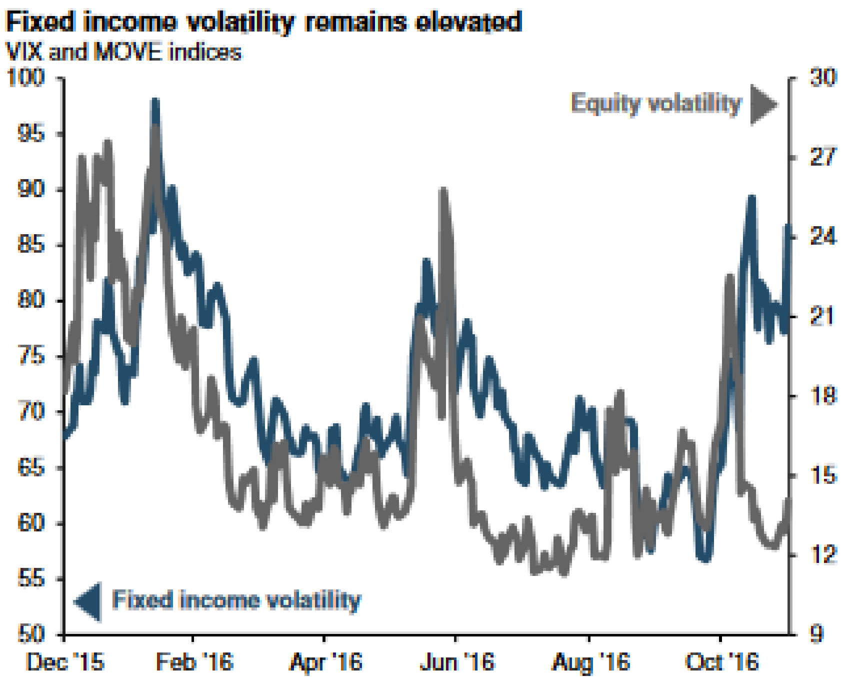
Friday, December 9: Consumer Sentiment, Wholesale Inventories & Sales.

Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.10%	0.24%	3.67%	10.02%	8.11%	6.19%
S&P 500	-0.91%	-0.31%	1.09%	9.45%	7.72%	9.05%
NASDAQ Composite	-2.62%	-1.27%	0.42%	6.22%	3.88%	10.43%
Russell 3000	-1.08%	-0.36%	1.47%	10.18%	7.99%	8.66%
MSCI EAFE	-0.22%	0.06%	-4.16%	-2.28%	-3.98%	-1.97%
MSCI Emerging Markets	-0.30%	-1.13%	-4.93%	9.69%	6.25%	-3.31%
Bonds						
Barclays Agg Bond	0.08%	-0.09%	-3.11%	2.41%	1.82%	2.84%
Barclays Municipal	-1.11%	-0.31%	-5.34%	-1.23%	-0.74%	3.57%
Barclays US Corp High Yield	0.37%	0.10%	0.66%	15.12%	11.79%	4.23%
Commodities						
Bloomberg Commodity	2.37%	1.21%	4.98%	11.12%	8.62%	-10.98%
S&P GSCI Crude Oil	12.20%	4.53%	16.29%	39.52%	29.33%	-18.02%
S&P GSCI Gold	-0.27%	0.33%	-11.22%	11.09%	11.74%	-1.22%

Source: Morningstar

Chart of the Week: Fixed Income Volitility



Source: JP Morgan

Immediately post-election, volatility spiked in fixed income and equity markets as uncertainty translated into risk aversion and the equity market sold off and rates rallied. However, since the election, there has been a reversal of the market's initial reaction, with the S&P 500 reaching a new all-time high and the 10-year Treasury yield increasing by over 50 basis points. This reversal came as investors digested the move from monetary\ policy, which is supportive for both equity and bond markets, to looser fiscal policy, which could generate inflationary pressure and tighter monetary policy, both of which are negatives for the bond market.

Interestingly, as the chart on the previous page shows, this dynamic has resulted in very different levels of volatility in stock and bond markets. Rate volatility remains elevated as investors try to estimate the magnitude of Trump's fiscal expansion and thus its impact on inflation and rate hikes by the Federal Reserve. Equity market volatility, on the other hand, has fallen close to the previous 2016 summer low. Volatility in the fixed income market will likely stay elevated until there is more clarity regarding Trump's policy mix and the subsequent pace of rate hikes. The Fed's December meeting should produce a rate hike, and importantly, the corresponding press conference will be helpful for investors in gauging whether the Committee's views on the economy have changed and thus warrant a more hawkish stance.

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The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

The yield on high yield bonds is due, in part, to the volatility and risk of the high securities market. High yield bonds are also known as "junk bonds".

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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.*