

## Stocks Finish Sharply Higher

**December 12, 2016** - U.S. stocks rose for a second week with the S&P 500 extending its rally into a sixth day, its longest daily winning streak since June 2014, as the post-election rally continues to expand. Bank shares are continuing to outperform, sending the broader Financials sector up 18.9% since Election Day, while the Russell 2000 Index, a measure of smaller-sized company performance, is up 16.6% over the same period. Healthcare and household products makers led gains on Friday after underperforming for much of the rally. Wall Street also benefited from the European Central Bank's (ECB) decision to extend its monthly asset-purchase program. On Thursday, ECB chief Mario Draghi said the central bank will continue the program through December 2017, albeit at decreasing amounts from April at €60B per month, down from €80B.

In key domestic economic data last week, the U.S. trade deficit widened to a four-month high of \$46.6B as foreign sales weakened by 1.8% and imports rose 1.3%. Factory orders rose 2.7% to an 18-month high and the final reading of third quarter worker productivity was unchanged from the prior quarter at 3.1%, the quickest pace of growth in two years. Job openings slipped slightly to 5.53 million in October from 5.63 million, but still remain near record levels. Lastly, The University of Michigan's preliminary reading of December consumer confidence jumped to 98, the highest since January 2015, from 93.8 in November.

For the week, the S&P 500 rose 3.13%, the Dow Industrials rose over 586-points (+3.06%), and the NASDAQ Composite advanced 3.60%. All 11 major sector groups posted gains last week, led by Financials (+4.86%), Technology (+4.25%), and Telecom (+3.84%). Healthcare (+0.66%) gained the least. The US Dollar Index neared an 18-month high on Friday, rising 0.81% last week to 101.59. Treasuries continued to trend lower, pushing the yield on benchmark 10-year Treasury notes up 8.4 basis points to 2.468%.

### What We're Reading

[The Fed's Near-Certain Rate Hike ↗](#)

[Oil Surges on Deepening Production Cuts ↗](#)

[Chinese Shares Tumble ↗](#)

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### Week's Economic Calendar

**Monday, December 12:** Federal budget;

**Tuesday, December 13:** FOMC Meeting Begins, NFIB Small-Business Optimism, Import/Export Prices;

**Wednesday, December 14:** Producer Prices, Retail Sales, Industrial Production, Business Inventories, FOMC Policy Decisions and Press Conference;

**Thursday, December 15:** Jobless Claims, Consumer Prices, Empire State Mfg., Philly Fed Index, Housing Market Index;

**Friday, December 16:** Quadruple Witching Hour, Housing Starts, Atlanta Fed Business Inflation.

## Market Watch

Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	3.06%	3.31%	9.24%	13.38%	12.92%	7.22%
S&P 500	3.13%	2.81%	6.77%	12.87%	12.78%	10.01%
NASDAQ Composite	3.60%	2.28%	6.54%	10.05%	9.75%	11.52%
Russell 3000	3.37%	3.00%	7.46%	13.90%	13.74%	9.71%
MSCI EAFE	2.91%	2.98%	-1.24%	0.57%	0.80%	-0.70%
MSCI Emerging Markets	2.91%	1.76%	-3.24%	12.89%	12.97%	-2.36%

  

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	-0.26%	-0.35%	-3.00%	2.14%	1.74%	2.79%
Barclays Municipal	1.22%	0.90%	-4.08%	-0.02%	0.39%	4.08%
Barclays US Corp High Yield	1.21%	1.31%	1.85%	16.51%	15.12%	4.61%

  

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	1.28%	2.50%	5.00%	12.54%	11.55%	-11.11%
S&P GSCI Crude Oil	0.74%	5.31%	12.91%	40.56%	36.58%	-18.85%
S&P GSCI Gold	-1.35%	-1.02%	-12.93%	9.59%	7.92%	-1.99%

Source: Morningstar

## Chart of the Week: Stocks Typically Lag With New GOP Presidents

Table One

S&P 500 % Changes During the Five First-Term Republican Presidents Since WWII										
Pres. Cycle	Average S&P 500 % Changes (w/o dividends reinvested)					Batting Averages (Frequency of Price Gains)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Year 1	(2.6)	0.3	(4.9)	4.4	(2.7)	40%	40%	20%	80%	20%
Year 2	(1.3)	(4.2)	0.8	10.7	6.0	20%	40%	60%	100%	60%
Year 3	5.9	7.1	2.1	5.3	21.4	80%	60%	60%	80%	100%
Year 4	1.2	(0.9)	1.6	4.7	6.6	60%	40%	60%	100%	100%
<b>All Years</b>	<b>0.8</b>	<b>0.6</b>	<b>(0.1)</b>	<b>6.3</b>	<b>7.8</b>	<b>50%</b>	<b>45%</b>	<b>50%</b>	<b>90%</b>	<b>70%</b>

Source: CFRA, S&P DJ Indices. Past performance is no guarantee of future results.

From a historical view, stocks typically do not fare well during the first year/first term of new Republican presidents. In Table One, CFRA Chief Strategist Sam Stovall shares data showing the S&P 500 fell an average of 2.7% during the first year of a new Republican president's first term in office. What's more, the S&P 500 declined in price in four of the five Republican presidencies since World War II. Only President Bush (41) saw the market rise in his first year in office. Granted, just five observations are not statistically significant, but the results are intriguing, particularly when compared with the results under first-year Democrats.

Let's hope that this time history is only a guide and not gospel. Indeed, as Stovall is forecasting favorable corporate earnings trends for S&P 500 companies next year. In fact, ten of the 11 major sector groups are expected to post year-over-year earnings-per-share (EPS) increases in 2017, led by a turnaround story in Energy. What's more, double-digit increases are projected for Financials, Materials and Technology sectors. Consumer Discretionary, Consumer Staples, Healthcare, and Real Estate groups are expected to record EPS growth of 7.5% to 9.0%. Finally, only Industrials, Telecom, and Utilities are likely to record EPS growth below 4.0%, with Utilities expected as the only earnings decliner next year.

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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.*