

Stock Rise, Dow Unable to Reach 20,000

December 27, 2016 - U.S. stocks edged fractionally higher last week, while Treasuries capped their first weekly gain since the election. The Dow Industrials spent the week testing the 20,000 level, but the new milestone remained elusive. The blue-chip index closed within 0.25% of that level for the first time on Tuesday before paring gains. The S&P 500 traded in a range of just 0.7% last week, its tightest range since May 2015. It was a low-volume trading week, with investors largely staying on the sidelines ahead of the Christmas holiday. On Friday, the fewest number of shares changed hands since December 26, 2014.

In key economic reports last week, the third and final reading of third quarter GDP growth was revised higher to 3.5% from 3.2%. This boosts the year-over-year growth rate to 1.7%, a welcome increase for the third quarter after slipping to 1.3% year-over-year in the second quarter. Household spending, accounting for around 70% of the economy, expanded by 3% last quarter, up from the 2.8% pace previously estimated. Also positive, November existing home sales increased to 5.61 million annualized rate, the highest sales pace since early 2007. Lastly, wages gains stalled in November, unchanged after rising by 0.6% in October.

For the week, the Dow Industrials rose 0.46%, capping its seventh weekly gain, its longest winning streak since December 2014. The S&P 500 returned 0.30%, closing within 0.4% of its all-time high, and the NASDAQ Composite increased by 0.48%. Six of the 11 major sectors advanced last week, with Telecom (+2.40%), Financials (+0.89%), and Industrials (+0.75%) rising the most. Consumer Discretionary (-0.31%) and Energy (-0.29%) lagged the most. Trading volume averaged about five billion shares per day, the slowest week this year. The US Dollar Index ended the week up 0.06% at 103.01, while gold futures fell for a seventh week. Crude oil rose just seven cents last week, closing at a 17-month high of \$53.02/barrel. Prices on 10-year Treasuries rose by 13/32 last week, pulling its yield down 5.5 basis points to 2.538%.

What We're Reading

[Dow Industrials Test 20,000 Level ↗](#)

[U.S. Dollar Nears 2002 High ↗](#)

[Economic Growth Revised Higher ↗](#)

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Week's Economic Calendar

Monday, December 26: Christmas Holiday observed; all markets closed;

Tuesday, December 27: port Prices; Case-Shiller Home Prices, Consumer Confidence, Richmond Fed Mfg

Wednesday, December 28: Pending Home Sales;

Thursday, December 29: Jobless Claims, Goods Trade Deficit, Farm Prices;

Friday, December 30: Chicago PMI.

Market Watch

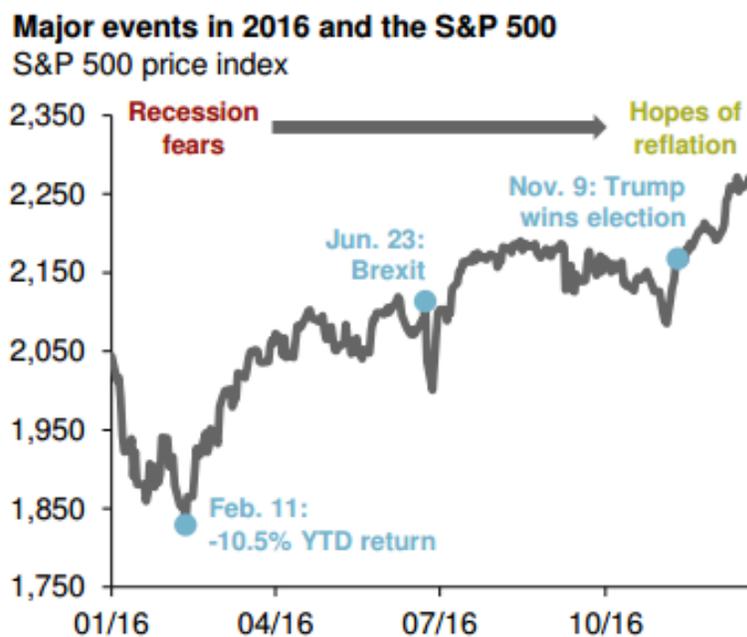
Stocks	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Dow Jones Industrial Avg.	0.46%	4.24%	9.16%	14.40%	13.21%	6.95%
S&P 500	0.30%	3.08%	5.17%	13.18%	12.07%	9.68%
NASDAQ Composite	0.48%	2.66%	3.27%	10.45%	9.60%	10.93%
Russell 3000	0.31%	3.03%	5.48%	13.93%	12.79%	9.22%
MSCI EAFE	0.37%	2.79%	-1.99%	0.39%	0.75%	-1.17%
MSCI Emerging Markets	-1.68%	-2.38%	-8.06%	8.30%	7.25%	-3.08%

Bonds	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Barclays Agg Bond	0.45%	-0.52%	-3.55%	1.97%	2.04%	2.73%
Barclays Municipal	0.49%	0.79%	-3.96%	-0.14%	-0.04%	4.01%
Barclays US Corp High Yield	0.35%	1.61%	1.92%	16.86%	17.38%	4.64%

Commodities	1-Week	MTD	3-Month	YTD	1-Year	3-Year
Bloomberg Commodity	-0.96%	0.37%	2.44%	10.19%	10.82%	-12.04%
S&P GSCI Crude Oil	0.13%	7.24%	19.20%	43.14%	41.29%	-18.76%
S&P GSCI Gold	-0.33%	-3.43%	-15.51%	6.92%	6.10%	-1.80%

Source: Morningstar

Chart of the Week: Entering 2017 With Eyes Wide Open



Source: J.P. Morgan, S&P, Dow Jones Indices

2016 is set to go down as one of the most eventful years for investors since the global financial crisis. After a sharp sell-off at the start of the year, major geopolitical events, such as Brexit, an

unexpected Trump victory in the U.S. presidential election and a resounding “no” vote against the Italian referendum, took stocks on a wild ride. However, equity markets once again demonstrated their resilience, as the S&P 500 crossed 2,200 for the first time ever in November and the Dow Jones Industrial Average looks set to cross the 20,000 threshold sooner rather than later.

With equity markets having moved significantly higher since the beginning of November, investors should be mindful of a few things going into 2017. According to J.P. Morgan, a rapid appreciation of prices with no meaningful improvement in earnings has left valuations feeling a bit inflated, with the forward P/E ratio of the S&P 500 sitting at 17.1x, well above its long-term average. Moreover, the U.S. dollar has reached its highest level in 14 years in the wake of the presidential election, and a strong dollar has traditionally been a headwind for the earnings of large companies with significant international exposure. Taken together, these factors tell a somewhat cautionary tale: While there are reasons to be optimistic about 2017, risks still remain, and the hopes and dreams that this late-year rally have been built on will need to translate into stronger fundamentals for current levels to be sustained.

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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.*