

## Market Review and Outlook—December 6, 2016

**While This is a Three Month Update—What Matters Other Than the November Election?** The US stock markets rose about 1% in September, fell 2% or so in October, but jumped over 4% in November after the US Presidential election. The results, and the market reaction were both surprising. Polls and pundits through October had predicted that Hillary Clinton would win and yet Donald Trump took the prize. While markets typically hate surprises, the US stock market has rallied since November 8th.

**The November Rally has been Narrow** While US stock markets set new records in November, foreign stock markets have generally fallen. Smaller US stocks have been very strong, likely due to expectations of benefits from reduced US federal regulations under a Trump Administration. Similarly, financial sector stocks have surged, again due to expectations of loosening of costly financial oversight. Partially due to concerns over heightened trade tensions, foreign stocks have fallen. An additional concern is the growing trend of populist election results (Brexit, Trump, and Italy), which could indicate a further weakening of the European Union in the coming quarters.

**Gain in Stocks has Brought Pain in Bonds** One of the main reasons that US stocks have risen since the election is President-Elect Trump's confirmation of his commitment to a large increase in infrastructure spending (roads, bridges, ports, etc). This has raised expectations for economic growth in the US in coming quarters. This is expected to free up the Federal Reserve Bank to raise overnight rates sooner and quicker than the markets expected in October. This economic activity has also increased expectations for borrowing demands, which has led to rising intermediate and long-term interest rates since the election.

The investing world changed overnight on November 8, 2016. Investors need to consider a sharply changed outlook for global economies, and global stock and bond markets. We recommend a renewed commitment to broad, global diversification. Our suspicion is that optimism is greater than warranted, as is fear. Therefore, the middle, balanced approach is a good bet.

Category	3 Months	12 Months	3-Yr Avg	5-Yr Avg	10-Yr Avg
<b>Fidelity Govt Cash Reserves</b>	+0.03%	+0.08%	+0.03%	+0.02%	+0.90%
<b>Intermediate Term Bond</b>	-2.71%	+2.36%	+2.48%	+2.81%	+4.04%
<b>Intermediate Muni Bond</b>	-4.65%	-0.43%	+2.82%	+2.83%	+3.29%
<b>Large-Cap Stock</b>	+2.01%	+6.33%	+7.05%	+12.92%	+6.01%
<b>Mid-Cap Stock</b>	+3.83%	+8.54%	+6.25%	+12.84%	+6.64%
<b>Small-Cap Stock</b>	+7.01%	+11.40%	+5.50%	+12.92%	+6.52%
<b>Foreign Large-Cap Stock</b>	-3.06%	-3.31%	-2.24%	+4.81%	+0.64%
<b>Foreign Small/Mid Cap Stock</b>	-2.42%	+0.17%	+0.15%	+7.63%	+2.90%
<b>Diversified Emerging Markets</b>	-3.90%	+5.63%	-3.38%	+0.89%	+1.76%
<b>Technology</b>	+1.86%	+7.97%	+11.28%	+14.17%	+8.40%
<b>Real Estate</b>	-8.00%	+4.03%	+10.55%	+10.91%	+3.68%
<b>Natural Resources</b>	+6.73%	+16.56%	-3.56%	-0.43%	+1.00%
<b>Moderate Allocation (50-70% stocks)</b>	-0.08%	+4.17%	+3.90%	+7.87%	+4.74%

*The data in this table comes from Morningstar and is as of November 30, 2016*

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