Market Commentary

4th Quarter 2016

Happy New Year to all our valued clients who have entrusted us with their hard-earned assets! We appreciate your trust and will continue striving to perform in your best interest in 2017. In this regard, 2016 has been an excellent year for returns in the U.S. stock market. In previous commentaries, we projected a rise in the mid to high single digits for equity returns, yet this forecast has proven to be conservative.

The Dow Jones Industrial Average overcame its worst ever start to a year and posted its best performance since 2013. The positive returns were fueled by an improving economy and hopes for more business-friendly policies under a new president. The Dow and S&P 500 rose 13% and 9.5% respectively in 2016. Stocks rebounded from numerous shocks in 2016 including a recession scare, worries about a slow-down in China, and brief tremors from Britain's vote to leave the European Union. Continued growth in corporate earnings, an accommodative Federal Reserve, rising employment, and stabilizing oil prices helped undergird investor enthusiasm for stocks.

Fixed-Income markets experienced a tumultuous year with the benchmark 10-year Treasury Note hitting a record low of 1.366% in early July. Yet, at year-end the 10-year closed at 2.446%. This remarkable sell-off in the second half of the year (decline in bond valuations) was precipitated by the Federal Reserve raising interest rates driving investors to expect stronger growth, higher inflation and potentially a faster pace of interest-rate increases in 2017. Despite the rise, Treasury yields are still low from a historical perspective. The 10-year yield is less than half its trading level in 2007.

Going forward, our prognostications are hopeful, but shaded with a bit of caution as we look to how events might unfold in 2017. The incoming administration is proposing an ambitious pro-growth agenda: 15% corporate tax rate; repatriation of over $2 trillion in corporate profits held overseas; repealing or modifying ObamaCare, Dodd-Frank and other regulations; reducing individual tax rates; and $1 trillion infrastructure program.

This agenda will be promulgated amidst a stronger dollar, accelerating interest rates, rising housing prices, increased defense spending, and demand for more fiscal restraint in light of the U.S. deficit nearly doubling over the past 8 years (from $9.99 trillion to $19.54 trillion).

Adding all this up and factoring in the possible opposing tasks, the financial markets will assess how all these forces intertwine and balance out. If the economy can begin growing at a sustained 3-4% (as opposed to the previous years' averages of less than 2%), earnings may rise over 12%. Along with projected dividend increases over 6%, these components would justify mid to high single digit increases in stock prices at 18 times forward current price/ earnings ratios during 2017.

As of now, consumers and businesses are optimistic that better economic times will prevail in the foreseeable future. During the next six-months, we will have a better idea on how and if this administration will be able to pull off structural as opposed to cyclical improvements along with productivity enhancements that will provide another year of sustained economic growth and meaningful increases in stock prices.

As always, we thank you for your trust and confidence. And, we look forward to working with you in 2017!