Market Insights for the Week Ending November 4, 2016


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The markets have been experiencing a modest decline since early September when election season began to heat up. Today, markets broke that trend following the FBI's most recent email revelations. As we have written here before, it is normal to see markets suffer when uncertainty (political or financial) is building. It is also normal to see markets move in a positive direction when that stress is dialed back.

For these reasons, HCM's Advance and Defend™ portfolios made defensive moves earlier this year, trimming our equity exposure twice, once in June and once in August. As the election cycle runs its course and election uncertainty should fall behind us shortly, we expect to reinvest a portion of those funds in the near future.

While HCM does not believe in the ability to time the short term direction of the markets, we do believe in behavioral finance and the fact the crowds of investors will often act in predictable ways as they "follow the herd." For these reasons, we believe it is reasonable to expect the markets to recover their late-summer/early-fall losses as the election uncertainty is resolved. We believe this is at the root of today's positive early market action.

The week ahead will be dominated by election coverage, regardless of the winner. However, for long-term investors, HCM believes it makes sense to focus on investment fundamentals. The good news is that the economic fundamentals have been getting a bit better.

There are a handful of themes that we believe are important to consider:

1. The most recent GDP report suggests U.S. growth is beginning to improve.
2. Consumer spending is accelerating.
3. The Purchasing Manager's Index continues to grow.
4. Flash manufacturing data for the U.S., the Euro Zone and Japan suggest that October was the strongest month for global manufacturing growth in two years.
5. UK GDP numbers continue to show remarkable resilience in the wake of Brexit.
6. Wages were up in the most recent employment report.
7. Corporate earnings in the third quarter seem to be coming out of the doldrums.
8. The Fed will likely increase interest rates in December, a move that is now widely expected. However, they will still be in a very accommodative stance supporting somewhat stretched market valuations.

Market Activity

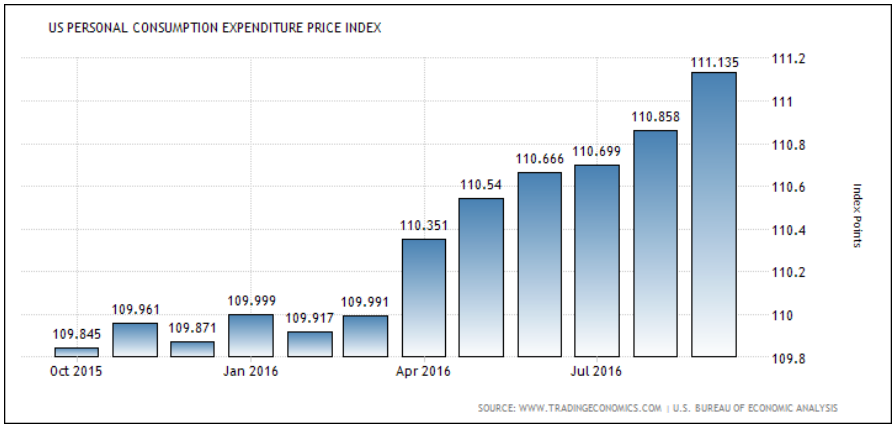
Markets across the board lost ground last week. U.S. Stocks, as measured by the Russell 3000 (IWV) lost about 1.87% for the week while developed foreign markets (EFA) lost about 1.54%. Emerging markets (EEM) lost 2.55% for the week. Bonds (AGG) added a small amount of ballast, gaining about .23% for the week. (Note: performance is based on the change in net asset value.)

Last Week's Headlines

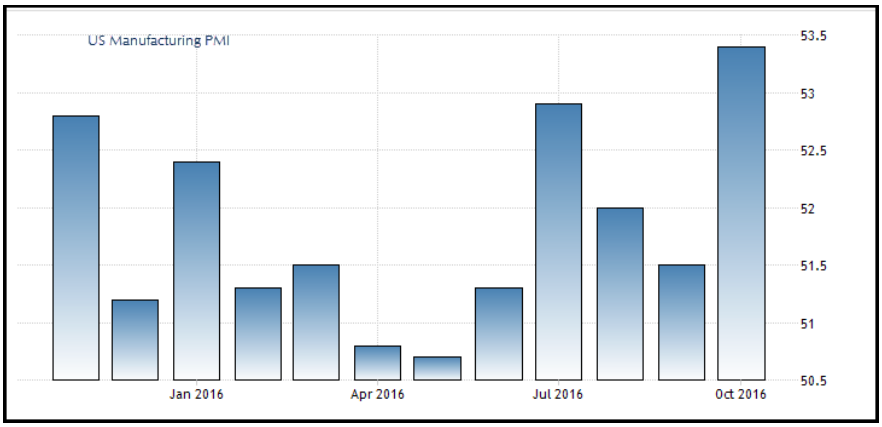
- The jobs report for October was a mixed bag of information, but most of it was positive. There were 161,000 new jobs added in October, down from September's upwardly revised total of 191,000. The unemployment rate fell 0.1 percentage point to 4.9%. Employment continued to trend upward in health care, professional and business services, and financial activities.

- In a move that was not unexpected, the Fed decided to maintain the federal funds rate at its current 0.25%-0.50% range. While the Committee acknowledges that the case for an increase in the federal funds rate has continued to strengthen, it decided, for the time being, to wait for some further evidence of continued progress toward further improvement in labor market conditions and a return to 2.0% inflation. Unless economic conditions worsen over the course of the next several weeks, it is expected that the Committee will raise interest rates following its last meeting of the year in December.

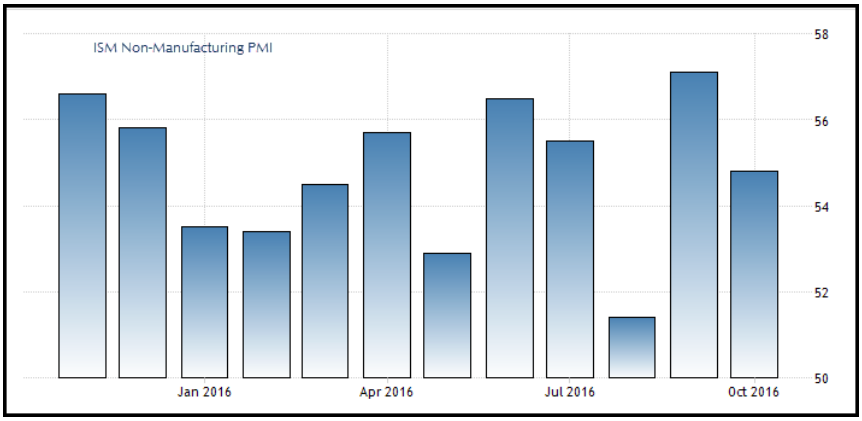
- An indicator of inflationary trends that receives special consideration by the Fed, the personal consumption expenditures price index rose 0.2% in September from August. The PCE index is up 1.2% from a year earlier - still short of the Fed's 2.0% target inflation rate. Overall, personal income increased $46.7 billion (0.3%) in September, disposable personal income (personal income less current taxes) increased $37.0 billion (0.3%), and personal consumption expenditures (PCE) increased $61.0 billion (0.5%). Excluding food and energy (core PCE), the index increased 0.1% in September. The increase in personal income in September primarily reflected gains in employee and nonfarm proprietors' income.



- In the manufacturing sector, Markit's U.S. Manufacturing Purchasing Managers' Index™ (PMI™) for October was 53.4 - better than September's 51.5. The improvement in the index, based on a survey of purchasing managers, was driven by strengthening in production and new orders. The latest Manufacturing ISM® Report On Business® also noted an increase in manufacturing activity, as its PMI registered 51.9% - a 0.4 percentage point increase over September's reading. While the ISM® report saw a drop in new orders, production and employment increased in October compared to September.



- The latest Non-Manufacturing ISM® Report On Business® shows economic activity in the non-manufacturing sector slowed in October as the non-manufacturing index registered 54.8% - 2.3 percentage points lower than September's reading of 57.1%. Non-manufacturing business activity, new orders, and employment all decreased in October from September. Only the Prices Index increased 2.6 percentage points, indicating rising producer prices in October. There has been a slight cooling-off in the non-manufacturing sector month-over-month, indicating that September's increases weren't sustainable.



- In the week ended October 29, the advance figure for seasonally adjusted initial unemployment insurance claims was 265,000, an increase of 7,000 from the previous week's unrevised level. The advance seasonally adjusted insured unemployment rate remained at 1.5%. The advance number for seasonally adjusted insured unemployment during the week ended October 22 was 2,026,000, a decrease of 14,000 from the previous week's revised level.

Key Dates/Data Releases

11/8: JOLTS
11/10: Treasury budget
11/11: Consumer sentiment

Eye on the Week Ahead

It's a light week for economic reports. All eyes will be on the results of Tuesday's U.S. presidential election.

Weekly Focus – Think About It

"If you change the way you look at things, the things you look at change." – *Wayne Dyer*

HCM Mission Statement

We work passionately to help our clients and their families enjoy a financially independent life by providing sophisticated wealth planning solutions.

Additional Notes:

- The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
- Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
- Past performance does not guarantee future results.
- You cannot invest directly in an index.
- Consult your financial professional before making any investment decisions.

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