

Weekly Market Commentary December 19, 2016

The Markets

The Federal Reserve put a hitch in the markets' giddy-up last week.

It wasn't the Fed's second interest rate hike in a decade that caused markets to stumble. December's rate hike was old news before it happened. In mid-December, *Reuters* reported Fed funds futures indicated there was a 97 percent probability the Fed would raise rates one-quarter percent at its December Federal Open Market Committee (FOMC) meeting. In addition, all 120 economists polled by *Reuters* agreed rates were headed higher.

It was the dot plot – a chart showing FOMC members' assessments of appropriate monetary policy going forward – that unsettled investors. *Barron's* explained:

“The market, however, was surprised when the Fed turned ever-so more hawkish, with its “dot plot” indicating three rate hikes next year, up from two. Still, stocks handled the news better than might be expected, with the Standard & Poor's 500 index dropping 0.8 percent immediately following the announcement but still finishing the week down just 0.1 percent to 2258.07. The NASDAQ Composite fell 0.1 percent to 5437.16, while the Dow Jones Industrial Average gained 86.56 points, or 0.4 percent, to 19843.41, its sixth consecutive winning week.”

Bond market investors weren't too happy last week, either. The yield on 10-year Treasury notes has nearly doubled during the past five months, rising from 1.36 percent to 2.6 percent. When bond rates move higher, bond prices move lower.

If there is a silver lining for bond investors, it may be some specialists believe changes in Treasury rates will be modest during 2017. *Barron's* reported, “For what it's worth, the 10 firms surveyed in our Outlook 2017 see the 10-year yield at 2.69 percent late next year, just a tad above today's level.”

Data as of 12/16/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.1%	10.5%	8.9%	8.1%	13.1%	4.7%
Dow Jones Global ex-U.S.	-1.0	1.0	1.9	-2.7	3.3	-1.3
10-year Treasury Note (Yield Only)	2.6	NA	2.3	2.9	1.9	4.6
Gold (per ounce)	-2.8	6.5	5.2	-2.9	-6.6	6.3
Bloomberg Commodity Index	-1.2	10.9	13.0	-11.7	-8.7	-6.3
DJ Equity All REIT Total Return Index	-0.5	7.2	7.6	12.9	12.4	5.0

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

TO 20,000 AND BEYOND! You may have noticed investors have been pretty enthusiastic about U.S. stocks in recent weeks. It's possible the Dow Jones Industrial Average will surpass 20,000.

The fervor for U.S. stocks may be due to improving corporate earnings growth or it may reflect expectations for the incoming U.S. President. *The Economist* reported:

“...the American stock market rally since the election has been quite remarkable, given the qualms expressed by many investors before the election. The big hope is that Mr. Trump will focus on his plans for fiscal stimulus and corporate tax-cutting; this will boost America’s economy and corporate profits. But, it may also push up inflation so investors are switching out of Treasury bonds and into equities. At the same time, investors are counting on Mr. Trump to forget about, or downplay, his protectionist rhetoric; as yet, they have been remarkably sanguine about his twitter wars with China.”

Last week, the *American Association of Individual Investors (AII) Sentiment Index* showed more than 40 percent of participants (44.7 percent) are optimistic share prices will move higher during the next six months. The historic average for bullish sentiment is 38.4 percent. About 32 percent of participants were bearish, which is also above the historic average of 30.3 percent. It’s interesting to note the percentage of bearish participants rose by 5.8 percent from the previous week when it was below the historic average.

Any time investors become exuberant, the words of Warren Buffett come to mind: “Two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics will be unpredictable...We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful.” The U.S. bull market may have further to run, but contrarians may see better relative opportunities elsewhere.

Weekly Focus – Think About It

“The supreme quality for leadership is unquestionably integrity. Without it, no real success is possible, no matter whether it is on a section gang, a football field, in an army, or in an office.”

--Dwight D. Eisenhower, 34th President of the United States

Best regards,

Your Beacon Wealth Management Team

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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- * Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- * Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- * The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- * All indices referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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