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MANAGING WEALTH. SECURING LEGACIES.

Market Month: November 2016

The Markets (as of market close November 30, 2016)

The economy picked up the pace in November, as did the stock market. After getting off to a sluggish start during the early part of the month, equities soared following the results of the presidential election. Each of the indexes listed here reached record highs during the month. The Russell 2000 posted the largest monthly gain, reaching double digits. Energy stocks jumped at the end of the month following OPEC's agreement to cut production. Investors seemed willing to sell bonds and buy stocks as evidenced by the yield on 10-year Treasuries, which jumped 56 basis points by the end of the month and now exceeds their 2015 closing yield. Gold lost value, closing November at $1,174.80, down $103 from its October closing value of $1,277.80.

Market/Index	2015 Close	Prior Month	As of November 30	Month Change	YTD Change
DJIA	17425.03	18142.42	19123.58	5.41%	9.75%
NASDAQ	5007.41	5189.13	5323.68	2.59%	6.32%
S&P 500	2043.94	2126.15	2198.81	3.42%	7.58%
Russell 2000	1135.89	1191.39	1322.34	10.99%	16.41%
Global Dow	2336.45	2445.57	2454.12	0.35%	5.04%
Fed. Funds	0.25%-0.50%	0.25%-0.50%	0.25%-0.50%	0 bps	0 bps
10-year Treasuries	2.26%	1.82%	2.38%	56 bps	12 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

October's Economy in Review

- **Employment:** Once again, the employment sector remained steady during October. According to the Bureau of Labor Statistics, there were 161,000 new jobs added in October, down from a revised September total of 191,000. In October, employment continued to trend up in health care, professional and business services, and financial activities. Thus far this year, job growth has averaged 181,000 per month, compared with an average of 229,000 per month in 2015. The unemployment rate was unchanged at 4.9%. There were 7.8 million unemployed persons in October. Both the unemployment rate and the number of unemployed persons have changed little since August of last year. The labor force participation rate was 62.8% and the employment/population ratio came in at 59.7%. The average workweek was unchanged at 34.4 hours (the workweek in manufacturing was 40.8 hours compared to 33.6 workweek hours for private service-providing employees). Average hourly earnings rose by $0.10 to $25.92 following an $0.08 increase in September. Over the year, average hourly earnings have risen by 2.8%.
- **FOMC/interest rates:** The FOMC did not raise interest rates in November, keeping the federal funds target rate at the 0.25%-0.50% range. However, minutes from its November meeting indicate several

Key Dates/Data Releases

12/2: Employment situation

12/6: International trade

12/12: Treasury budget

12/13: Import and export prices

12/14: Retail sales, Producer Price Index, industrial production, FOMC meeting

12/15: Consumer Price Index

12/16: Housing starts

12/21: Existing home sales, new home sales, consumer sentiment

12/22: Durable goods orders, GDP, personal income and outlays

12/29: International trade in goods

Committee members are of the opinion that the time is right for another rate hike, which is likely to occur when the Committee next convenes in December.

- **Oil:** Oil prices soared on the last day of the month following OPEC's agreement to cut production significantly. In an apparent effort to boost the sagging economies of small, petroleum-dependent nations, oil prices could reach $60 per barrel soon. Prices for the year have remained below $50 per barrel for the most part. But by the close of trading on November 30, the price of crude oil (WTI) had reached $48.98 per barrel. The national average retail regular gasoline price was $2.154 per gallon on November 28, down from the October 31 selling price of $2.230. It is expected that retail gas prices will surge in the coming weeks as the prices of oil and petroleum products increase.
- **GDP/budget:** According to the "second" estimate of the GDP from the Bureau of Economic Analysis, the third-quarter 2016 gross domestic product grew at an annualized rate of 3.2% (the first estimate of the third-quarter growth rate was 2.9%). The growth rate for the second-quarter GDP was 1.4%. Factors driving the upward movement of the GDP include increases in consumer spending (personal consumption expenditures), government spending, exports, and nonresidential (e.g., business) fixed investment. Corporate profits increased $133.8 billion in the third quarter, in contrast to a decrease of $12.5 billion in the second quarter. As to the government's budget, October marks the start of the government's 2017 fiscal year. The federal deficit for the first month of FY 2017 was $44.19 billion following September's budget surplus of $33.45 billion. Total receipts for October were $221.7 billion (down from September's $356.6 billion), while total outlays were $265.9 billion (down from $323.2 billion in September). Comparatively, the budget deficit for October 2015 was $136.6 billion.
- **Inflation/consumer spending:** Consumer spending increased in October as inflation continues to slowly, but discernibly, trend upward. Personal income (pre-tax earnings) and disposable personal income (income less taxes) each rose 0.6%, while personal spending, as measured by personal consumption expenditures, increased 0.3% for the month. The personal consumption expenditures price index increased 0.2% for the month, and is up 1.4% for the year. Core personal consumption expenditures (personal spending excluding volatile food and energy costs) rose 0.1% in October, the same increase as in September. The core PCE index is up 1.7% year-over-year. The Producer Price Index, which measures the prices companies receive for goods and services, was unchanged in October from September, but is up 0.8% year-over-year — the largest 12-month increase since December 2014. Excluding food, trade services, and energy, prices fell 0.1% for the month, following a 0.3% gain in September. For the 12 months ended in October, the index for final demand less foods, energy, and trade services decreased 0.1%. The Consumer Price Index, which measures what consumers pay for both goods and services, increased 0.4% in October after climbing 0.3% in September. Over the last 12 months, the CPI has risen 1.6%. As in September, increases in the shelter and gasoline indexes were the main causes for the rise in the CPI. The gasoline index rose 7.0% in October, while the shelter index increased 0.4% for the second straight month. Retail and food services sales jumped 0.8% in October from the previous month. Retail trade sales were up 1.0% from September and 4.3% from last October. Sales for nonstore (online) retailers were up 12.9% from October 2015.
- **Housing:** Sales of existing homes increased in October, while new home sales fell. Existing home sales increased for the second consecutive month, growing 2.0% to an annual rate of 5.60 million, up from 5.49 million homes for sale in September. October's sales pace is 5.9% above October 2015 and is at its highest annual rate since February 2007. The median sales price for existing homes in October was $232,200, down slightly from the $235,200 median sales price in September but up 6.0% from last October. Total housing inventory at the end of October decreased 0.5% to 2.02 million existing homes available for sale, which is 4.3% lower than a year ago (2.11 million). The Census Bureau's latest report reveals sales of new single-family homes dropped 1.9% in October to an annual rate of 563,000 — down from September's rate of 574,000. The median sales price of new houses sold in October was $304,500, while the average sales price was $354,900. The seasonally adjusted estimate of new houses for sale at the end of October was 246,000. This represents a supply of 5.2 months at the current sales rate.
- **Manufacturing:** The Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities) was unchanged in October after decreasing 0.2% in September. On the plus side, manufacturing output increased 0.2% and mining posted a gain of 2.1%. However, production was pulled down by a drop in utilities (2.6%). At 104.3% of its 2012 average, total industrial production in October was 0.9% lower than its year-earlier level. Capacity utilization for the industrial sector edged down 0.1 percentage point in September to 75.3%, a rate that is 4.7 percentage points below its long-run (1972-2015) average. The advance report from the Census Bureau shows new orders for all durable goods (expected to last at least three years) climbed $11.8 billion, or 4.8%, in October from the prior month. Excluding the volatile transportation segment, new orders increased 1.0%. Orders for capital goods increased $10.2 billion, or 14.5%, and shipments rose 0.1%.

- **Imports and exports:** Reversing course from the prior month, the advance report on international trade in goods for October revealed that the trade gap widened by 9.6% to $62.0 billion in October, up from $56.5 billion in September. Exports of goods fell $3.4 billion, while imports rose $2.1 billion. Dragging down exports was a nearly 12.0% drop in foods, feeds, and beverages. Both wholesale and retail inventories fell by 0.4%. According to the Bureau of Labor Statistics, import prices advanced 0.5% in October, following a 0.2% increase the previous month. Export prices increased 0.2% for the month. The price increase in imports was driven by higher fuel prices (7.2%), which more than offset declining nonfuel prices (0.1%). Despite the price increase for exports, overall export prices are down 1.1% over the past year.
- **International markets:** European stock markets had a good month in November, possibly feeding off of the strong U.S. market performance and OPEC's agreement to cut back oil production. China's currency has declined to its lowest level in eight years. Japan and China, along with other Asian countries, are waiting for President-elect Trump's trade proposals, particularly as to whether he holds to his proposal to withdraw from the Trans-Pacific Partnership.
- **Consumer sentiment:** Consumers' confidence in the economy weakened in October. The Conference Board Consumer Confidence Index® for October dropped 4.9 points to 98.6 from September's revised reading of 103.5. The Surveys of Consumers of the University of Michigan Index of Consumer Sentiment fell from 87.9 in September to 87.2 in October. Both reports show consumers are pessimistic about current and future business conditions and future job prospects.

Eye on the Month Ahead

The stock market climbed following the presidential election. Interest rates remained unchanged in November. However, much could change in December as President-elect Trump rounds out his cabinet and offers more details on his economic and foreign policies moving forward. All indications are that the Fed will relax stimulus measures by increasing the federal funds interest rate when the Committee meets in mid December.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.
