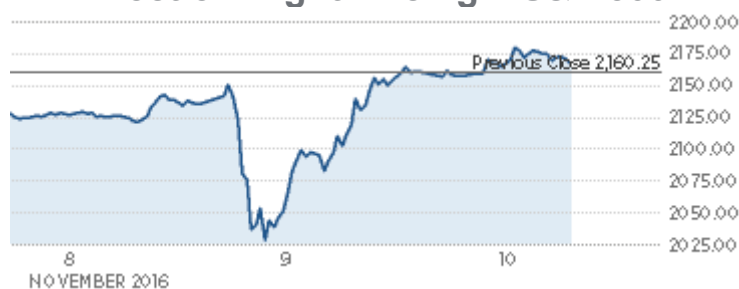


Peter Robbins  
Chief Investment Officer

## 2016 ELECTION NOTE

The only thing markets dislike more than uncertainty is an outright surprise. Very few observers or pollsters gave Donald Trump much of a chance to win the election. The election proved to be one of the biggest political surprises in history. As it became clearer that Trump would win, the US stock market sold off 5.8% in the overnight futures market before rallying to close up 1.1% the day after the election in an incredible and historic round-trip.

### Election Night Pricing – S&P 500



Source: Google Finance

Leading up to the election, Hillary Clinton made it clear that she planned to extrapolate the policies of the Obama administration by raising taxes, propping up the Affordable Care Act, and, under pressure from her party, increasing regulation on banks and other financial intermediaries. The promise of higher taxes together with increased regulations and governance by executive orders created a government policy backdrop that amplified the prevailing uncertain outlook for the health care and financial sectors of the stock market, in particular. Additionally, valuations of stocks related to defense have been negatively impacted by the vagaries of the defense budget sequester. We're not making a political statement here; these are our observations drawn from our analysis of stocks in these sectors and perspectives we take away from company management reports.

Still, in the 24 hours following the election, we were impressed at the seemingly immediate “reset” in the markets to reflect what a Donald Trump victory might mean to the economy and the capital markets. On election night the stock market was already recovering as Trump delivered his victory speech. In the speech he put a strong emphasis on infrastructure investment as well as elements of his “Contract with America,” the plan for his first 100 days in office. The fiscal policy elements of his contract include rolling back regulations and lowering marginal tax rates for corporations and individuals. The stock market clearly perceives this plan to be a pro-growth proposition given the dramatic rotation we witnessed of investors’ dollars into economically-sensitive stocks such as industrial companies, basic material and energy companies.

<b>S&amp;P 500 Percent Price Change by Sector</b>	
<b>Nov 9, 2016</b>	
<b>Name</b>	<b>%Chg↑</b>
All Securities	+1.10%
Financials	+4.07%
Health Care	+3.43%
Industrials	+2.43%
Materials	+2.13%
Energy	+1.52%
Telecommunication	+0.87%
Consumer Discretionary	+0.18%
Information Technology	-0.24%
Consumer Staples	-1.35%
Real Estate	-2.28%
Utilities	-3.68%

Source: Bloomberg

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Banks and certain healthcare stocks gained the most over the course of the day as investors assumed some of these companies would bear less regulatory costs and future scrutiny under a new administration.

## 10 Year Treasury Interest Rates



Source: Yahoo Finance

In addition, interest rates made a dramatic move upward. We think the bond market reacted to better prospects for economic growth and the increased likelihood that the Federal Reserve will raise rates before the end of the year, considering the recent improving growth and employment data. All of the post-election gains came at the expense of stocks sensitive to rising interest rates or with less sensitivity to improving economic growth, such as the consumer staples sector. This year we have remained wary of stocks that might be sensitive to increasing interest rates, and our portfolios benefited by the strong and decisive rotation into many of the stocks we own given their recent attractive valuations. We are inclined to keep our portfolios configured as they are while this improving-growth story continues to play out.

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The table below might provide us some sense of what a same-party President and Congress means for our stock market. Obviously, the bond market is not back to “normal”, though it seems on its way; and, arguably, the stock market remains on the higher side of its historical valuations. Nonetheless, although the stock market might be ahead of itself a little one day after this historic election, the dramatic realignment of generally higher valuations among sectors and stocks strongly suggests to us the market is less uncertain about government policies and confident that the direction of a new administration’s fiscal policy can lead to faster economic growth and employment gains.

DJIA Performance		
When US Government Has A:	% Gain/ Annum	% of Time
Democratic President, Republican Congress	4.56	10.17
Democratic President, Split Congress	7.99	3.46
Democratic President, Democratic Congress	2.96	34.46
Republican President, Republican Congress	6.85	22.49
Republican President, Split Congress	-6.05	-10.38
Republican President, Democratic Congress	-2.05	19.03

Source: Ned Davis Research

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