



## FOURTH QUARTER 2016



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### Market Overview

Animal spirits bad and good were running wild during the concluding quarter of 2016. Mr. Trump's somewhat surprising victory left investors discounting a regime which will go to work on infrastructure, reduce regulation, and reduce tax rates. This ignited confidence, which seems otherworldly to anyone who stayed up late into election night watching markets being routed overnight as we adjusted to the impact of election results.

Trump's victory led to considerably greater risk-seeking preferences by investors. One proxy for this is the performance of various market capitalization segments. Within the Russell 3000 Index, small cap stocks (proxied by the Russell 2000 Index) led the way with an 8.83% gain. This performance was followed by the Russell 2500 Index's 6.12% advance. Mega-cap stocks did edge mid- and large-cap stocks; the Russell Top 200 Index added 4.08%, and the Russell Midcap picked up 3.65%. Small-caps also paced the market for 2016 overall.

Q3 was the 'pause which refreshes' for style-based performance. Value stocks trumped growth stocks during Q4, as they had during the first 6 months of the year. The gap was most pronounced in small-caps, where the Russell 2000 Value trounced the 2000 Growth by 10.50%, bringing its edge for all of 2016 to 20.42%! This value over growth theme played out up and down the cap spectrum, with the narrowest margin in the mega-cap Top 200 Index. Here, the Top 200 Value bettered the Top 200 growth by 6% for Q4, and 9.25% for the year.

Financial stocks within the S&P 500 Index rallied sharply after Trump's victory, as investors moved to discount a more benign regulatory environment. Closer examination reveals the group's rally began mid-summer, as 10 year Treasury yields began to climb. Late-stage cyclicals also fared well during Q4, with Materials, Energy, and Industrials stocks all registering very strong results. By contrast, counter-cyclicals struggled. Utilities and Real Estate were flat, and Consumer Staples and Health Care stocks recorded modest declines.

Within the Russell 2500 Index, Producer Durables paced the ascent, climbing 11.76%—and bringing their gain for 2016 to a strong 26.46%. Energy and Materials & Processing sectors were the other late-stage cyclicals which powered higher. Here again, we note solid performance from the Financial sector, which climbed 10.94%. Counter-cyclicals lagged; Health Care lost 5.70%, and Consumer Staples notched a scant 0.49% advance.

### Market Outlook

I will write a different outlook next quarter, but given the continued hurt many feel and the venom some are pouring forth, a repeat of last quarter's concluding remarks seems most appropriate:

*"We must show, not merely in great crises, but in the everyday affairs of life, the qualities of practical intelligence, of courage, of hardihood, and endurance, and above all the power of devotion to a lofty ideal, which made great the men who founded this Republic in the days of Washington, which made great the men who preserved this Republic in the days of Abraham Lincoln."*

—Theodore Roosevelt, Inaugural Address, 1905

This political season has been disconcerting, no matter your allegiance. The dishonesty, the vitriol, the personal win-at-all-costs, nation-be-darned spirit of the race has many of us in a state of disbelief. A positive outcome can be a deeper dialogue about the state of affairs in the nation, and an identification of shared beliefs and values. We may not have a candidate whom embodies these traits, but if we have constructive conversation, we're bound to see that candidate emerge at some point. We are fortunate to have a sound, adaptive structure to allow us to continue to prosper.

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