

December 2016

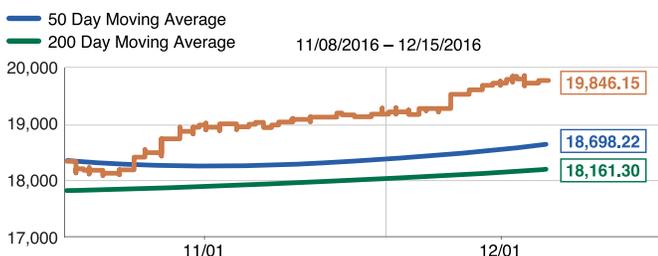
Election Connections

Inflated worth or warranted growth?

In last month's Market Insights, we put forth the proposition that the impact of Presidential elections on markets was temporary in nature. The message was that elections tended to cause volatility, not long-lasting trends. Well, we got a big dose of volatility between election night and the market close on 11/9 with Dow futures dropping over 900 points, then opening positively the next day and ending the trading session up 256 points. Bond yields followed suit on 11/9 moving up as well (bond prices drop when yields rise) as bond traders began to price in expectations of faster economic growth and increased levels of inflation. Since Election Day, the Dow has added over 1000 points, or 4.7% and the 10 Year Treasury yield has moved from 1.8% to 2.4%, an increase of over 30%.

DJ Industrial Average (DJII-USA)

19846.15 53.62 0.27% 09:49:33 AM USD



10-Year Bond Yields



Cautiously optimistic about the road ahead

Are the market's expectations correct? Will a Trump presidency give the market cause to continue its long bull run, or are the moves we are seeing overdone? Going forward, we are cautiously optimistic that much of what the market has begun to price in is warranted. We are not alone in our line of thinking as evidenced by a snap survey conducted by Strategas Research Partners. Strategas found the following investor responses out of the 650 institutional investors they surveyed.

Investor response to the election



Diving further into the survey's results they found that over 86% of respondents believed that U.S. equity markets would be higher in twelve months with the largest portion of those respondents expecting the S&P to be trading in a range of 2300-2400. Bonds look to have lost much of their luster as well with over 82% of respondents expecting yields to increase to over 2.50% in twelve months indicating more downside for bond prices.

Trump's economic agenda may spur economic growth

Causing much of this optimism is the President Elect's economic agenda that focuses on tax reform, reduced regulation on business, and renegotiation of trade deals. Details are limited, but successful implementation could have a positive impact on U.S. equity markets and could help to spur short term economic growth. As inauguration day gets closer we expect talk surrounding the possible renegotiation of trade deals to get more attention and for

this to cause increased market volatility. The increased volatility will likely be a result of traders not knowing what impact renegotiated trade deals will have on economic growth. We are hopeful that those fears will prove to be unfounded as we expect President Trump to allow tax measures, proposed by House Speaker Paul Ryan, to serve as his method of bringing more jobs back to the U.S. as opposed to draconian changes to existing trade deals.

What does it mean for investors?

PLAY IT SAFE IN THE SHORT-TERM

Going into 2017 we continue to be constructive on U.S. equity markets and expect economic growth to accelerate should President Trump push through a more pro-growth economic agenda. With that said until we have more clarity on what President Trump's economic agenda will look like, we are inclined to play it safe with only a neutral to modest overweight to risk assets.

TO VIEW A MORE DETAILED DESCRIPTION AND ANALYSIS OF THESE INSIGHTS, VISIT WWW.WEBSTERBANK.COM/PB.

Source for charts: Strategas Research Partners, Investment Strategy Report 11/21/16

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