U.S. Stocks Prove Fruitful for November

One year after the U.S. presidential election, we've seen record market highs among domestic equities, low unemployment and strengthening consumer confidence. The S&P 500 is up 20% year over year.

In addition, all three major domestic stock indices gained ground in November, although tech stocks showed some late-month weakness. The Dow climbed 3.8%; the NASDAQ gained 2.2%; the Russell 2000 was up almost 2.8%; and the S&P 500 gained 2.8%. The international EAFE was positive, but basically flat for the month.

	12/30/16 Close	11/30/17 Close	Change Year to Date	% Gain/Loss Year to Date
DJIA	19,762.60	24,272.35	+4,509.75	+22.82%
NASDAQ	5,383.13	6,873.97	+1,490.84	+27.69%
S&P 500	2,238.83	2,647.57	+408.74	+18.26%
MSCI EAFE	1,684.00	2,016.84	+332.84	+19.76%
Russell 2000	1,357.13	1,544.14	+187.01	+13.78%
Bloomberg Barclays Aggregate Bond	1,976.37	2,040.31	+63.94	+3.24%

Performance reflects price returns as of 4:30 EDT on Nov. 30, 2017.

Federal Reserve Chair Janet Yellen stated before the congressional Joint Economic Committee that she anticipates the Federal Open Market Committee will gradually raise interest rates and trim its balance sheet as the economy continues to expand and the job market continues to improve. Economic growth was revised higher for the third quarter to 3.3%, the fastest rate in three years, and it seems likely that the Fed will raise its benchmark rate again in December. Yellen plans to step down when her term ends in early February. The president's nominee to replace her, Jerome "Jay" Powell, is likely to be confirmed by the Senate. After President Trump's recent nomination of Marvin Goodfriend, there will be three open positions on the seven-member board to be appointed by the Trump administration. The composition will be very different and will be a great influence on policy going forward, explains Senior Fixed Income Strategist Doug Drabik.

In other news, pending sales of existing homes rose in October and conditions for homeownership – including low borrowing rates, credit availability and a stronger labor market – are encouraging. And wage growth is strengthening for middle- and working-class Americans, according to data from the Federal Reserve Bank of St. Louis and Bloomberg.

Here’s a look at what else is happening in the economy and capital markets, as well as key factors we are watching:

Economy

- Monthly economic figures have been distorted in recent months due to the hurricanes, but the underlying trends remain consistent with a moderately strong pace of growth in the near term, according to Raymond James Chief Economist Scott Brown.
- If current Fed Governor Powell becomes Fed chair, the monetary policy outlook isn’t expected to change much (still a gradual normalization), but bank regulation is expected to soften.
- Brexit will be messy and Chinese debt levels bear watching, but the global economic outlook continues to improve, helping the U.S. economy.
- Lawmakers are working hard to complete a tax cut bill. Negotiations will be difficult, but there is enormous pressure to get something done by the end of the year.

Equities

- Tech stocks, which have led the market this year, faltered at the end of November.
- Retail stocks, banks and airlines surged, and the Dow Jones Industrial Average reached an all-time high as hoped-for tax reform gained traction.
- Jeffrey Saut, chief investment strategist at Raymond James, told CNNMoney that he believes investors can take advantage of momentary volatility to look for bargains in other sectors.

International

- European financial markets remain at a valuation discount to their North American peers, and the scope for both economic reform and compromises around Brexit are two potential sources of positive surprise for the region, according to Raymond James European Strategist Chris Bailey.
- In Asia, the strong performance of the technology sector continued to cast a positive influence, however, a slight note of caution came from the performance of Chinese bond yields and interbank rates in the Hong Kong market, both of which reached their highest yield levels for a number of years.
- Watching the potentially unstable tension between equity and fixed income trends will be important for all emerging market investors along with the general level of the U.S. dollar, which is always highly influential.

Fixed Income

- The Treasury yield curve continues to flatten, with short-term interest rates up and long-term interest rates down. The four previous recessions were preceded by an inverted curve; however, there is nothing obvious signifying a recession in our current economy, explains Doug Drabik, senior fixed income strategist.

- The markets still maintain some slope and the economy, albeit slowly, continues to show signs of growth; however, prospects for fiscal stimulus have weakened since the election of President Trump. The excitement of campaign promises has faded as getting Congress on board has proved difficult.
- So what can be expected? The bond market typically proves itself efficient. Without any stimulus, if rates get flat enough, investors will choose shorter maturities with similar yields without the risks associated with longer maturities. Over time, this could be the catalyst to drive longer-term rates higher. The wild card in all of this may be in the composition of the Fed and future policies.

Bottom line

- Over the longer term, investors may want to consider redeploying cash to take advantage of opportunities that may present themselves over the near term as we continue this secular advance, suggests Chief Investment Strategist Jeff Saut.
- We will continue to watch for legislative updates, particularly in regard to tax reform, as well as economic developments. We will keep you updated with the most relevant information.

As we head into the end of the year, please let me know if you have any questions about market events or how to position your long-term financial plan for the coming year. I look forward to speaking with you.

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