RAYMOND JAMES®

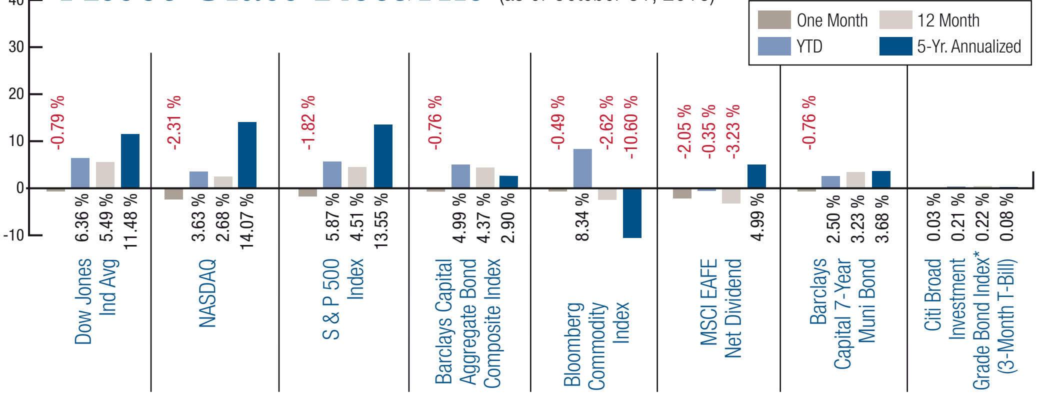
market update

From the Office of:
Jeff Sgroi, CFP®

"A national debt, if it is not excessive, will be to us a national blessing"

– Alexander Hamilton

Asset Class Returns (as of October 31, 2016)



Market/Economic Synopsis

- Donald Trump stuns most pollsters, political analysts and Americans with presidential election victory over Hillary Clinton
- Global sovereign debt yields jump after November 8th election results
- Chicago Cubs end 108-year drought, beating Cleveland Indians in an instant classic World Series game 7 victory
- All eyes on Fed's decision to either raise or hold rates in December meeting
- U.S. dollar spikes after election day, while many emerging market/foreign currencies plunge
- Crude oil prices pressured as supplies increase and increased drilling is expected

Market Outlook

As I write this, Election Day seems like eons ago. Typically, I try to write and distribute my Market Letter within the first week of our bi-monthly schedule. But this month seemed (and indeed was) different, as market volatility picked up significantly in in the first week of November when FBI Director Comey announced further investigation of Hillary Clinton's email history. Heavy market movement continued on the Monday prior to the election, when Director Comey effectively cleared Secretary Clinton of any wrongdoing in the latest investigation.

For those of you who stayed up late on Tuesday, November 8th to see the final results, you may have also seen the Dow futures drop around 800 points at midnight MT, in anticipation of a Trump victory. By the time the dust had settled early Wednesday morning, and it was clear that not only had Trump been elected 45th President of the United States, but that Republicans had won (or at least maintained) a clean sweep in the Senate and House, winners and losers in the financial markets were evident too. By market close that same day, the strong futures losses had swung around to a triple digit gain in the Dow Jones Industrial Average of over 200 points. Looking forward, it is important for us to recognize where these opportunities will be.

After wading through a plethora of articles, analysis and information, I found a particularly interesting analysis offered by J.P. Morgan Asset Management's Chief Global Strategist, Dr. David Kelly* that offers such insight. Dr. Kelly is a frequent contributor to many media outlets and financial advisors alike. Having followed him for a number of years, I value his opinion and feel he assembled a solid analysis immediately following the election in his piece titled *U.S. Elections: A populist victory.* The following is part of his succinctly written article, and I have included what I feel are the most important, relevant talking points.

"Markets had been anticipating a Clinton win, which would have represented a continuation of the status quo. Trump's victory, by contrast, has elevated global uncertainty, partly because of the danger of a trade war and partly because it is not clear which parts of a very ambitious agenda of tax cuts, increased defense and infrastructure spending, and health care reform can, or will, be implemented.

Global financial markets have reacted in predictable "risk-off" fashion, with global stock markets and oil prices falling, and gold and U.S. Treasuries rising.

For investors, however, the question is not how markets have reacted, but what is the long-term outlook in the wake of the U.S. elections? A few key points need to be made:

FIRST, the U.S. economy that President Trump will inherit is in pretty good shape. Real economic growth has picked up in recent months while the unemployment rate, at 4.9%, is close to any economist's definition of full employment. S&P 500 earnings have rebounded smartly from the oil and dollar induced slump of 2015 and inflation is still moderate. Moreover, the global economy is also showing signs of life with the global manufacturing purchasing managers' index hitting a two-year high in October. All of this, absent political uncertainty, would be positive for stocks and negative for bonds.

SECOND, the uncertainty and volatility following the U.S. election will, for now, reduce the probability of a Federal Reserve (Fed) rate hike in December, although the Fed will want to leave its options open until it can assess the market and economic fallout from the election result.

THIRD, while last night's (election night's) results represented a Republican sweep, actual policy change may be far less dramatic than was proposed by Trump during the campaign. First, it should be noted that there is a wide gulf between Trump's agenda and that of many "establishment" Republicans and the latter may well balk at unfunded tax cuts or spending increases. In addition, both the new President and Congress will likely act more slowly on dismantling the Affordable Care Act or trade agreements, until some better alternatives can be found.

FINALLY, it should be noted that, as has been the case elsewhere in the world this year, voters have chosen change over caution and politicians tend to respond to what voters want rather than what they

(continued)

need. While the Trump agenda is unlikely to be implemented in full, members of Congress may be willing to go along with some proposals to increase spending, lower taxes, reduce illegal immigration and increase tariffs. If they do so, they may well further stoke inflation in an economy that is already heating up. Longer term, increasing government debt to fund these initiatives has obvious dangers.

The knee-jerk reaction of investors to last night's election was to sell U.S. and global stocks and buy Treasury bonds. However, in the medium term, a warming economy, further stoked by expansionary fiscal policy, could favor the former over the latter.

In the long-run, investors would do well to make sure that they are well diversified outside of U.S. stocks and bonds and that they have sufficient exposure to alternatives and international securities. In light of the Brexit vote and the U.S. elections, 2016 has proven decisively that populism is a good political strategy— whether it proves to be good for long-term economic fortunes is another question entirely."

I find Dr. Kelly's observations and analysis to be particularly thoughtful given where we stand today. As always, we will take this, and other analyses, into consideration when offering advice and investment guidance over the next few months and beyond.

Raymond James is not affiliated with and does not endorse the opinions or services of Dr. David Kelly.

From the Officefront

There have been a number of exciting projects at our office recently. As some of you know, we began an extensive remodel of our office at 617 West Main Street in Aspen earlier this summer. Having officed in this location for the past 18 years, I felt it was time for a face-lift and a fresh look. Although it has taken a bit longer to complete than expected, we have moved back in and short of a few furniture pieces and punch list items, we are finished with construction and excited to be back in our new digs. For those of you nearby (or those of you who would like to travel to visit) we welcome you to come by and have a look!

On the theme of new looks, we have also recently completed a thorough update of our website (**www.raymondjames.com/sgroi**). The website was launched in early October, and features four primary sections – who we help, how we help, who we are, and an extensive education center. We invite you to have a look and welcome any feedback you would like to offer. As we add more features to the website, we anticipate that it will be increasingly interactive. For example, we have begun, and will continue, to post our Market Letters as they are created. We expect to add a video section where we will post market updates and other relevant information on a timely basis.

For those of you who visit our website, you will notice a link to Investor Access in the upper right corner. If you are not already familiar with Investor Access, it is an online tool that allows real-time viewing of your Raymond James accounts. It has information specific to your portfolio, historical information, and personal setting preferences. Recently, many clients have asked about suppression of paper documents (i.e. monthly statements, trade confirmations, prospectuses, proxies) in favor of electronic document delivery. Once enrolled in Investor Access, clients are able to easily select preferred delivery options. If you would like to consider using Investor Access or would like assistance in establishing online access to your accounts, please let us know and we will be happy to assist you. For those of you already using Investor Access, please feel free to use our website as a launching area!

Finally, I look forward to attending the annual Advanced Planners Study Group conference. It is an annual meeting of top Raymond James advisors whom I have had the pleasure of becoming acquainted with over the past 15+ years. This year, it will be in Aspen. Historically, there has been time during the day to network on the ski slopes. Pray for snow so we can do so again this year! I look forward to seeing the always impressive speakers and sharing ideas with colleagues. Many of my best portfolio management and financial planning ideas have come from this conference – I look forward to more of the same in a few weeks and then sharing these ideas with you.

From the Homefront

It has been one year since our move from Old Snowmass to "downtown" Basalt. I must admit, given my resistance (for years) to surrender the open space and fantastic views perched above the Snowmass and Capitol Creek valleys we are as happy as ever. In retrospect, it has been the right move for our girls and our family. Tracy and the girls have a short bike ride to school, we are surrounded by other young children in a friendly neighborhood, and all the amenities of a small town are within walking distance. We have been blessed to have friendships blossom and have a genuine sense of community.

Looking ahead to the end of the year, we are excited to share Thanksgiving with our local "family" and enjoy Christmas at home as well. We are in the midst of planning a family Disney trip that will coincide with the 2017 Raymond James National Conference in Orlando next April. I can't wait to see the girls light up as we tell them about the trip and they open boxes with Mickey ears later next month.

I hope you are able to enjoy time with your friends and family over the holidays. We, collectively, are extremely fortunate for all that we have. I know I will take time to reflect upon this over the next few weeks and hope you do as well.

If you prefer to receive this newsletter via email, please notify us at jeff.sgroi@raymondjames.com.

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