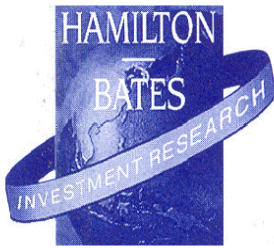

Hamilton-Bates
Market Update

November 4, 2016

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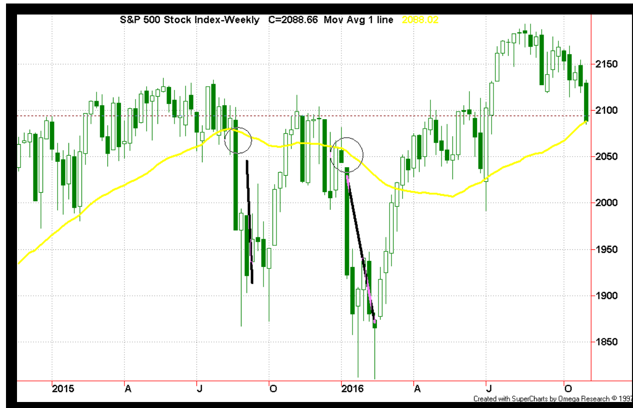
The Market

The major averages remain hostage to the election and news flow regarding the election. The market seemed to be pricing in a Clinton win but the past week has thrown some doubt to that. The market has responded to the uncertainty by declining right to an important technical support level.

The broad averages peaked in August and are down three months in a row. **The S&P 500, NYSE Composite, and Russell 2000 are now back to where they were in December of 2014!** (see chart of S&P below).



As long as the major averages hold right where they are now we would expect a post Election recovery. <u>However, any further drop would rupture support at the 200-day average (in yellow) that saw quick but painful drops (for another week or so) the prior two times it has been broken</u>. **See circled areas above.**

Best case sees the market bottom now and rally after the election. Worse case there is some doubt or uncertainty and we see an additional bought of weakness like early 2016. Painful but over quickly.

So what could trigger such a drop? In 2000 the result between Bush and Gore wasn't known for another month after the Election. The market dropped 4-6% during this period and ultimately 2000 was a major top for the market. If the election is close we could have a number of scenarios where there are recounts that take days, or worse a case neither candidate gets to 270 Electoral Votes sending the Election to the House of Representatives. If this were an ordinary election I'd say by Wed morning we would have a winner and life would go on. But this is no ordinary election. A Trump win would likely rankle the markets short-term, but even then we'd expect a rebound.

We have a bit more cash in the portfolios than usual, and we would be looking to BUY weakness into and just after the Election

The Economy, Earnings, & Interest Rates

Economic growth is currently in the annualized rate of 1.5-2.0% GDP Growth. This is enough to avoid recession but not nearly enough to support a healthy growth cycle or to create an expansion of aggregate demand. <u>The last time GDP was this soft the Fed was supportive, now they are likely to hike at the next meeting in December</u>. Rate hikes will only create drag for the economy.

The possibility of a rate hike has hurt fixed income and interest rate sensitive sectors like REITs and utilities over the past month, but we do not see a sustained rate hike cycle. Current fixed income weakness is an opportunity to buy. Tax-free and investment grade corporate bonds should remain attractive investment options.

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