Hamilton-Bates
Market Update

November 10, 2016

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Election Results

The market was held captive by the Election over the past few weeks. The market fell in the wake of the second FBI probe into Clinton's emails, then rallied a few days ahead of the Election as that probe closed. The market seemed assured of a Hillary's victory. Most watchers felt a Trump victory would unhinge the market at least short-term. It did but only briefly.

The market DID become unhinged for a few hours on Election night as it became apparent that Trump could and would win. At one point DJIA futures were down over 1000 points. The market quickly found buyers however, and by market open that Trump frown was turned upside down. The financial market remains in a bit of a turmoil as investors come to grips with a Trump Presidency, and what that might mean for stocks in general, various economic sectors, and interest rates.

The Economy, Earnings, & Interest Rates

The economy remains in slow-growth mode with GDP growth of about 1.5-2.0%. Job growth remains modest to moderate, but largely within the service sector of the economy rather than the traditionally higher-paying manufacturing sector (which continues to shed jobs). Wages have improved slightly but continue to lag when looked at on an inflation adjusted basis. The Election was clearly a vote on the Economy and on which the incumbent party lost. The Fed seems likely to hike rates in December, barring some sort of market collapse between now and that meeting.

We could see some minor turbulence but seasonal and historical trends don't support an immediate decline. The key between now and year-end will be navigating the currents beneath the surface as the market shifts to reflect economic and fiscal policy under Trump.

What A Trump Presidency Means for the Markets

Having followed markets for several years we have learned that it is more important to consider the market's reaction to events than the event itself. If we put aside the fears ahead of the Election as to what precisely a Trump presidency might involve, we can instead focus on what can be learned from the market's gyrations as the news is accepted. What we have learned so far is that the status quo seems over. Market's have embraced the idea that a Trump Presidency might see more fiscal policy measures instead of interest rate policy actions, and less regulation. This has triggered an early rally in material and industrial stocks, and a rebound in the beaten down healthcare and biotech sectors. Growth seems to be taken the lead over Value.

Market and Investment Outlook

The market swoon ahead of the Election held onto key levels such as 2080 on the S&P and Dow 17,600, even as it became clear that Trump would win.

The market continues to swirl as the DJIA has rallied while the NASDAQ has pulled back. We believe the market will sort things out fairly quickly and that stocks have higher to go. Barring a reversal of the current rebound, we could see stocks rally another 5-7% before year-end. The improvement in more 'growth' oriented sectors we had seen ahead of the Election has continued, and this favors further upside.

Fixed income assets have a more challenging path as the realities of higher rates at the next FMOC meeting are digested. We continue to like corporate and tax-free bonds, while we underweight Gov't Bonds.

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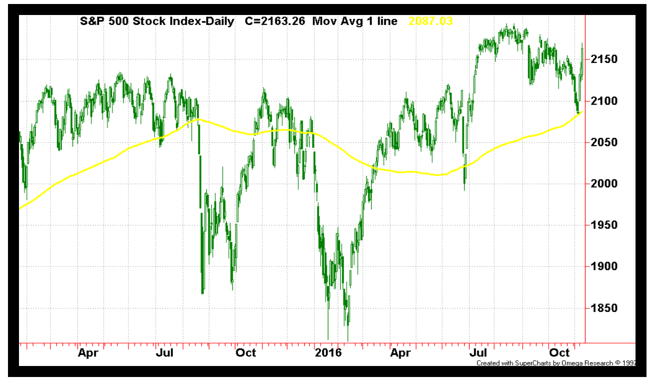
Market Charts—Market Rebounding in Election Aftermath

S&P 500 Near-Term (Top)

The S&P 500 fell ahead of the Election before bouncing from key support at the 200-day average (solid line). The next few days could see some digestion as investors shift portfolios to reflect expected Trump policy, but the uptrend remains intact.

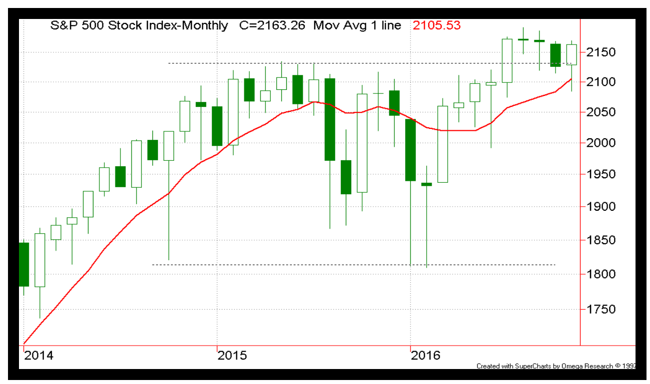
2080 is key support on the S&P 500 and we would not want to see the early November lows breeched.



S&P 500 Long-Term (Middle)

For much of 2015 and 2016 the S&P 500 has been stuck in a large range, as shown by the dotted lines in the chart at right. The market slid pulled back from its August peak for 3 straight months of decline, but held up at the key 10-month average (solid line).

The 10-month average is an important indicator of long-term trend. As long it holds the bullish trend remains intact.



Investor Risk Appetite on the Rise (Bottom)

Investors have flocked to low volatility products in 2014 and 2015 that promised to deliver income with reduced price fluctuation. That shift looks to be reversing. The High Beta ETF (SPHB) which holds growth and cyclical names began tracing out a technical bottom pattern late in 2015 through early 2016. This ETF, reflects an increasing appetite for growth and also 'riskier' investments. Both ahead of the Election and in its aftermath it has held up well. The strength and rally in this ETF suggests further upside for stocks in general.