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INVESTMENT MANAGERS

ECONOMIC UPDATE NOVEMBER 2016

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In typical October fashion, stocks were weaker last month across the board. The S&P 500 finished down -1.8% for the month reducing its year-to-date gain to 5.9%. Small cap stocks in the Russell 2000 index were hit harder and lost -4.8% in October bringing their year-to-date return more in line with their larger counterparts at 6.2%. International stocks in the MSCI EAFE index didn't fare any better and were down -2.1% in the month basically erasing their year-to-date gains resulting in a return of -0.4%. Meanwhile, the yield on the 10-year US Treasury Bond rose from 1.60% to 1.83% giving bonds negative returns as well with a -0.8% loss in the Barclays Aggregate Bond Index for the month. Even gold was down 3% in October.

The election has taken center stage in the media this month. Everyone seems to be fed up with this election season and in light of that, we'll keep our comments short. Unless one party sweeps the elections, we continue to expect gridlock. However, it seems like there is some consensus that regardless of who becomes president, we could see an increase in defense spending and infrastructure spending and we could also see a repatriation tax holiday. The market is expecting a Clinton win and if that occurs, stocks will likely show strength through year-end as we enter a normally favorable time of the year for stocks. If Trump wins the Presidency, we would expect the stock market to pull back initially due to increased uncertainty. In that scenario, the Fed may not raise rates in December as most analysts currently expect.

The initial estimate for GDP growth in third quarter is 2.9% which much better than the 1.1% and 1.4% earned in the first and second quarters. Strategas Research feels that we are in a "strong patch" that may not be a sustained reacceleration in growth.

Consumer spending was strong but not across the board as consumer preferences are shifting and people are spending more on experiences rather than goods. The trend of buying online versus in stores is also continuing. Wage growth has been accelerating (which could continue to fuel consumer spending) as unemployment is at levels considered to be full employment.

Corporate earnings have turned the corner. After five quarters of negative growth, third quarter earnings are on track to show positive growth for the first time since the first quarter of 2015. Of the S&P 500 companies that have reported so far, 74% have beat their earnings estimates and 61% have beat their revenue estimates. Analysts expect earnings to grow 1.4% for the quarter. They also expect the earnings growth to continue in the fourth quarter and to be in the double digits in 2017 and 2018.

Earnings growth helps support stock prices. Many people follow PE ratios (which compare a stock's price to the company's earnings) in deciding whether stocks are selling at favorable valuations. Higher PE ratios can indicate prices that are too high or vulnerable to a decline. Currently, PE ratios are in line with 25-year averages but have been increasing as earnings were declining causing some investors to be worried. Now, with earnings increasing, current prices can be better supported and even lead to higher prices as PE ratios decline or stay where they are.

It can be hard to see the benefits of diversification when all the major asset classes go down in the same period. Luckily, that does not happen often or for extended periods of time. We continue to believe that diversification is prudent in protecting and growing portfolios in times like this when uncertainty is high, bond yields are expected to rise and stocks are trading near all-time highs. If you have questions about your account, please do not hesitate to contact your advisor.

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