

Open-End Net Fund Flows (\$)	11/16	10/16	YTD (Nov)
Equity	-28.24B	-38.08B	-224.65B
Taxable Bond	-5.69B	8.78B	76.36B
Municipal Bond	-10.83B	1.37B	40.65B
Hybrid	-7.63B	-5.09B	-33.61B
Taxable Money Market	52.59B	-7.78B	78.94B

Key Interest Rates	12/30/16	6/30/16	12/31/15
Federal Funds Target Rate	0.75%	0.50%	0.50%
LIBOR (3-Month)	1.00%	0.65%	0.61%
2-Year T-Note	1.19%	0.58%	1.05%
10-Year T-Note	2.45%	1.47%	2.27%
Bond Buyer 40	4.25%	3.75%	4.21%

Commodities/U.S. Dollar	12/16	6 Mo.	12 Mo.
U.S. Dollar Index (DXY)	0.70%	6.31%	3.63%
TR/CC CRB Commodity Index	1.69%	-0.03%	9.29%
Crude Oil (Barrel)	8.66%	11.15%	45.03%
Natural Gas (per million BTUs)	11.04%	27.40%	58.97%
Gold Bullion (Ounce)	-1.63%	-12.79%	8.63%

Total Return Performance

U.S. Stock Indices	12/16	YTD	12 Mo.
S&P 500	1.97%	11.95%	11.95%
DJIA	3.44%	16.50%	16.50%
NASDAQ 100	1.15%	7.27%	7.27%
S&P 400	2.19%	20.73%	20.73%
Russell 2000	2.80%	21.28%	21.28%
Russell 3000	1.95%	12.72%	12.72%

U.S. Styles/Market Caps	12/16	YTD	12 Mo.
S&P 500 Growth	1.42%	6.89%	6.89%
S&P 500 Value	2.54%	17.39%	17.39%
S&P MidCap 400 Growth	2.40%	14.76%	14.76%
S&P MidCap 400 Value	1.97%	26.52%	26.52%
Russell 2000 Growth	1.36%	11.28%	11.28%
Russell 2000 Value	4.13%	31.72%	31.72%

Foreign Stock Indices (USD)	12/16	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	3.27%	2.75%	2.75%
MSCI Emerging Markets NET	0.22%	11.19%	11.19%
MSCI Europe NET	5.24%	-0.40%	-0.40%
MSCI BRIC NET	-1.20%	12.12%	12.12%
MSCI EM Latin America NET	0.87%	31.04%	31.04%
Nikkei 225	2.28%	5.83%	5.83%

Barclays Bond Indices	12/16	YTD	12 Mo.
U.S. Treasury: Intermediate	-0.03%	1.06%	1.06%
GNMA 30 Year	-0.02%	1.57%	1.57%
Municipal Bond (22+)	1.58%	0.88%	0.88%
U.S. Aggregate	0.14%	2.65%	2.65%
Intermediate Corporate	0.24%	4.04%	4.04%
U.S. Corporate High Yield	1.85%	17.13%	17.13%
Global Aggregate	-0.46%	2.09%	2.09%
EM Hard Currency Aggregate	1.03%	9.00%	9.00%

Sources: Bloomberg, Barclays, Investment Company Institute

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Climate

For the second consecutive year at its December Federal Open Market Committee meeting, the Federal Reserve initiated a 25 basis point increase to the federal funds target rate trading range, which now stands at 0.50% to 0.75%. The Fed commented in December that inflation expectations have increased “considerably” and noted that the labor market is tightening, according to Bloomberg. The Fed is forecasting three quarter-point increases in 2017. For the 30-year period ended 12/31/16, the federal funds target rate (upper bound) averaged 3.54%, compared to 2.60% for the Consumer Price Index (30-year period thru 11/30/16), according to Bloomberg. As of the close of 2016, the federal funds target rate (upper bound) stood at 0.75%, while the Consumer Price Index stood at 1.70% (most recent data as of 11/30/16). Instead of being nearly one percentage point above inflation (CPI), it is currently nearly one percentage point below. This suggests that the Fed is still pro-growth in its bias. The combination of the Fed’s easy monetary policy and President-Elect Donald J. Trump’s proposed pro-growth policies, including corporate tax cuts and less government regulations on businesses, could prove to be a positive catalyst for the equity markets in 2017, in our opinion.

Stock Market

The S&P 500 Index closed at 2,238.83 on 12/30/16, 1.45% below its all-time high of 2,271.72 set on 12/13/16, according to Bloomberg. The S&P 500 Index posted a total return of 1.97% in December and was up 11.95% in 2016. In December, all 11 major sectors that comprise the S&P 500 Index were up on a total return basis. The top-performer was Telecommunication Services, up 8.12%, while the poorest showing came from Consumer Discretionary, up just 0.06%. In 2016, 10 out of the 11 sectors finished the year in positive territory. The top-performer was Energy, up 27.36%, while the poorest showing came from Health Care, down 2.69%. When broken down into calendar quarters, the two best for the index were Q3’16 and Q4’16, up 3.85% and 3.82%, respectively, on a total return basis, according to Bloomberg. Perhaps some momentum is building. The so-called “Trump Rally” gave a boost to the index in Q4’16. From 11/8/16 through 12/30/16, the S&P 500 Index posted a total return of 4.98%, according to Bloomberg. The first 100 days of the Trump Administration are going to be watched closely by investors to see if he can lay the groundwork for his pro-growth, pro-U.S. agenda, in our opinion. The Dow Jones Industrial Average Index also posted a strong showing in 2016, up 16.50%. In the 119 calendar years since the launch of the Dow Jones Industrial Average (DJIA) in 1896 (excluding 2016), the index posted a yearly gain a total of 78 times, or 65.6% of the time, according to MarketWatch. Whenever the market rose in a given year, the DJIA posted a gain 65.4% of the time the following year.

Bond Market

In December, the yield on the benchmark 10-year Treasury note (T-note) rose seven basis points to 2.45%, 18 basis points higher than its 2.27% yield on 12/31/15, according to Bloomberg. Its three-year average yield was 2.17%. The last time the yield was above 3.00% was on 12/31/13, when it closed at 3.03%. With the exception of some volatility in 2015 in speculative-grade debt, such as high yield corporate bonds, due to the steep decline in a few key commodity prices, such as oil, the bond market has been a fairly stable place for investors to park capital, in our opinion. That climate could flip some in 2017 if the U.S. economy and inflation were to accelerate and interest rates were to rise, in our opinion.

Takeaway

Being optimistic about the prospects for making money in the markets does not mean one should ignore the inherent risks associated with investing in such opportunities as stocks, bonds and commodities. We have, however, been optimistic about the risk/reward relationship in the stock market, in particular, dating back to before the last bear market in stocks ended in March 2009. We have an archive at ftportfolios.com chock-full of newsletters describing opportunities in the stock market with the potential to generate capital appreciation in this low interest rate climate. We still feel optimistic heading into 2017.

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	2271.72	12/13/2016	676.53	3/9/2009	2238.83	-1.45%	11.95%	2.09%
S&P 500 Growth	1242.25	12/20/2016	363.99	3/9/2009	1223.02	-1.55%	6.89%	1.79%
S&P 500 Value	1015.67	12/13/2016	307.16	3/9/2009	1001.12	-1.43%	17.39%	2.42%
S&P MidCap 400	1696.12	12/8/2016	404.62	3/9/2009	1660.58	-2.10%	20.73%	1.69%
S&P MidCap 400 Growth	750.43	12/8/2016	174.44	11/20/2008	739.96	-1.39%	14.76%	1.29%
S&P MidCap 400 Value	597.29	12/8/2016	144.98	3/9/2009	581.01	-2.72%	26.52%	2.13%
S&P 100	1005.98	12/20/2016	322.13	3/9/2009	991.43	-1.45%	11.38%	2.21%
DJIA	19974.62	12/20/2016	6547.05	3/9/2009	19762.60	-1.06%	16.50%	2.42%
NASDAQ 100	4965.81	12/27/2016	1036.51	11/20/2008	4863.62	-2.06%	7.27%	1.24%
Russell 2000	1388.07	12/9/2016	343.26	3/9/2009	1357.13	-2.23%	21.28%	1.46%
Russell 2000 Growth	808.08	6/23/2015	190.73	3/9/2009	780.71	-3.39%	11.28%	0.95%
Russell 2000 Value	1817.06	12/9/2016	469.32	3/9/2009	1779.87	-2.05%	31.72%	1.92%
Russell 3000	1351.50	12/20/2016	389.61	3/9/2009	1331.72	-1.46%	12.72%	2.00%
MSCI World Net (ex U.S.) (USD)	5496.51	7/3/2014	2131.84	3/9/2009	4915.59	-10.57%	2.75%	3.14%
MSCI Emerging Markets Net (USD)	473.36	10/29/2007	164.51	10/27/2008	379.84	-19.76%	11.19%	2.55%
Ibovespa/Brazil (USD)	44638.24	5/19/2008	9077.09	1/21/2016	18483.13	-58.59%	66.46%	2.92%
RTS/Russia (USD)	2487.92	5/19/2008	498.20	1/23/2009	1152.33	-53.68%	59.42%	4.03%
S&P BSE 500/India (USD)	226.04	1/7/2008	57.52	3/9/2009	162.36	-28.17%	2.45%	1.38%
Shanghai Composite/China (USD)	832.07	6/12/2015	249.66	11/4/2008	447.23	-46.25%	-16.33%	1.81%
KOSPI/South Korea (USD)	2.29	10/31/2007	0.63	11/20/2008	1.68	-26.55%	0.98%	1.57%
Hang Seng (USD)	4082.25	10/30/2007	1420.72	10/27/2008	2837.35	-30.50%	4.23%	3.70%
MSCI Euro (USD)	1985.51	10/31/2007	682.47	3/9/2009	1155.00	-41.83%	2.48%	3.34%
S&P 500 Consumer Discretionary	667.86	12/13/2016	125.72	3/9/2009	647.82	-3.00%	6.03%	1.58%
S&P 500 Consumer Staples	571.69	7/14/2016	199.80	3/9/2009	531.79	-6.98%	5.38%	2.73%
S&P 500 Energy	737.09	6/23/2014	304.81	3/5/2009	554.50	-24.77%	27.36%	2.55%
S&P 500 Utilities	269.14	7/6/2016	113.81	3/9/2009	246.83	-8.29%	16.29%	3.56%
S&P 500 Financials	509.55	2/20/2007	81.74	3/6/2009	386.53	-24.14%	22.75%	1.67%
S&P 500 Banks	414.38	2/20/2007	49.02	3/5/2009	284.26	-31.40%	24.31%	1.84%
FTSE NAREIT All Equity REITs	725.61	8/1/2016	163.57	3/6/2009	653.48	-9.94%	8.87%	4.44%
S&P 500 Health Care	892.26	7/20/2015	252.84	3/5/2009	796.91	-10.69%	-2.69%	1.76%
S&P 500 Pharmaceuticals	647.69	8/1/2016	214.50	3/3/2009	578.15	-10.74%	-1.56%	2.61%
NYSE Arca Biotechnology	4431.87	7/17/2015	541.77	3/9/2009	3075.02	-30.62%	-19.15%	0.28%
S&P 500 Information Technology	823.50	12/27/2016	198.51	11/20/2008	807.95	-1.89%	13.85%	1.56%
Philadelphia Semiconductor	939.21	12/27/2016	171.32	11/20/2008	906.47	-3.49%	39.32%	1.58%
S&P 500 Telecom Services	183.85	7/1/2016	88.10	3/9/2009	176.61	-3.94%	23.49%	4.44%
S&P 500 Industrials	550.51	12/7/2016	132.83	3/9/2009	538.07	-2.26%	18.85%	2.20%
S&P 500 Materials	326.60	2/24/2015	108.33	3/2/2009	312.16	-4.42%	16.69%	2.14%
Philadelphia Gold & Silver	228.95	4/8/2011	38.84	1/19/2016	78.86	-65.56%	74.92%	0.46%
TR/CC CRB Commodity	473.52	7/2/2008	155.01	2/11/2016	192.51	-59.34%	9.29%	N/A
BofA ML Perpetual Preferred	242.43	9/6/2016	51.79	3/9/2009	232.28	-4.19%	3.10%	5.49%
BofA ML U.S. High Yield Constrained	388.58	12/30/2016	130.37	12/12/2008	388.58	0.00%	17.49%	6.46%

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