



December 2016: Market Review

Global equity markets were positive in December, as the U.S. Federal Reserve raised rates and the European Central Bank extended its stimulus program. The Dow Jones Industrial Average rose 3.44% during the month and finished 2016 up 16.50%. The S&P 500 Index gained 1.98% and added 11.96% during the year. The NASDAQ Composite was up 1.12% in December, lifting its year-to-date performance to 7.50%. The S&P 500, Dow, and NASDAQ all hit record highs during the month.

In U.S. economic news, the Federal Reserve raised the federal-funds rate by 0.25% at its December meeting, citing labor-market conditions, inflation, and confidence in economic progress as reasons for the hike. The Fed's widely followed "dot plot" also showed that the median expectation for 2017 is three rate hikes, likely pushing rates up 0.75%. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.22% in October, while on a year-over-year basis, prices were 5.56% higher than a year ago. Among commodities, WTI crude oil ended December at \$54 a barrel, up from \$49 at the end of November. Gold closed the month at \$1,150 per troy ounce, down from November's month-end price of \$1,171.

Value-style equities outperformed growth-style equities across all capitalizations in December. Among large cap stocks, the Russell 1000 Value Index added 2.50% during the month and was up 17.34% for the year, while the Russell 1000 Growth Index gained 1.24% and appreciated 7.08% in 2016. Among small cap stocks, the Russell 2000 Value Index rose 4.13% and added 31.74% this year, while the Russell 2000 Growth Index added 1.36% and rose 11.32% in 2016. The Russell Midcap Index closed the month up 1.14%, leaving the benchmark with a gain of 13.80% for the year.

International equity markets were positive in December. The MSCI EAFE Index ended the month up 3.42%, but gained just 1.00% for the year. The MSCI Europe Index rose 5.24% during December, but ended 2016 down (0.40%) for the year. The European Central Bank extended its monetary stimulus program to the end of 2017, although it will reduce the level of its bond purchases from €80 billion to €60 billion per month after March. The MSCI Pacific Index added 0.46% and was up 4.18% in 2016. The MSCI Emerging Markets Index gained 0.22% in December and rose 11.19% for the year.

U.S. fixed income markets were mixed in December. The yield on the 10-Year Treasury closed the month at 2.45%, above November's closing yield of 2.37%. The Barclays U.S. Aggregate Bond Index added 0.14% and gained 2.65% for the year. The Barclays U.S. Treasury Index lost (0.11%) during December, but rose 1.04% in 2016. The Barclays Treasury 20+ Year Index dropped (0.56%), but gained 1.43% for the year. The Barclays Corporate High Yield Index closed the year on a positive note, up 1.85%. The index's year-to-date return is 17.13%.

While U.S. equity markets' performance struggled in the second half of the month after the Fed announced its rate increase, they still had a positive December and year, as did the majority of markets around the world. Investors are continuing to watch Donald Trump's cabinet selections and what his first actions will be after taking office for insight into the impact on U.S. and global economies and investments. Business confidence figures have risen since Trump's victory, as many expect the new administration to tackle high corporate taxes, Obamacare, and excessive regulations – all of which are believed by the incoming administration to have hindered business growth in the recent past.