SIGNATURE ESTATE & INVESTMENT ADVISORS, LLC®

SEIA

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INSIGHTS

A QUARTERLY NEWSLETTER BRINGING YOU FINANCIAL INSIGHTS

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SEIA's Investment Committee meets frequently to discuss current market trends and potential investment managers. The Investment Committee is composed of SEIA's Senior Partners and Financial Advisors, holding a variety of advanced degrees and certifications, including Master of Science Degree in Financial Services, Certified Financial Planner™, Chartered Financial Analyst, Chartered Mutual Fund Counselor, Chartered Financial Consultant and Accredited Investment Fiduciary®.

INVESTMENT COMMITTEE MEMBERS	YEARS OF EXPERIENCE
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Andrew Lin Strategic Development	12
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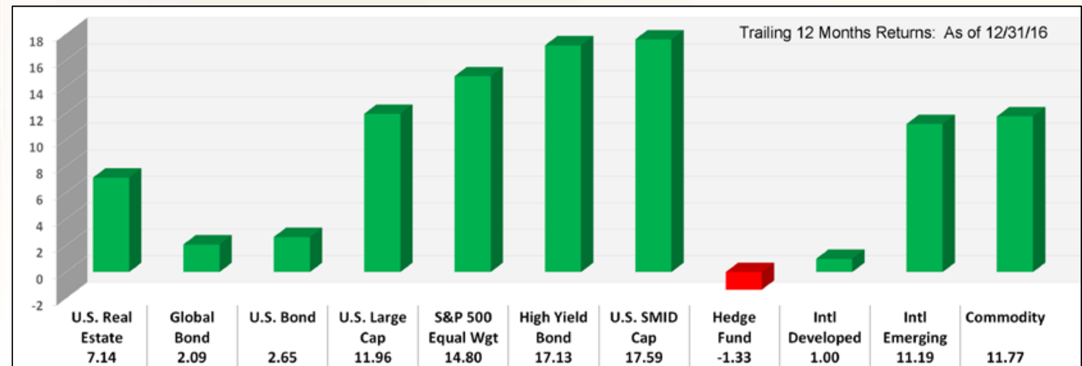
Derek Kellman, CFA® Portfolio Manager	4



Index	Index Name	Definition
U.S. Large Cap	S&P 500	Index based on 500 large US companies ranked by market capitalization (size).
S&P 500 Equal Weight	S&P 500 Equal Weighted	Index based on 500 large US companies ranked equally.
U.S. SMID Cap	Russell 2500	Index based on 2500 smaller US companies ranked by size (or, Russell 3000 which measures 98% of US market cap less the S&P 500 names).
ACWI	MSCI ACWI	Index consists of 46 country indexes comprised of 23 developed and 23 emerging market country indexes.
ACWI ex-US	MSCI ACWI Ex. USA	Index consists of 45 country indexes comprised of 22 developed (excluding the US) and 23 emerging market country indexes.
International Developed	MSCI EAFE	Index comprised of large and mid-cap stocks across Developed Markets around the world, excluding US and Canada.
International Emerging	MSCI EM	Index comprised of large and mid-cap stocks across 23 Emerging Market countries.
U.S. Bond	Barclays US Aggregate Bond	Index comprised of U.S. government and investment grade corporate bonds. 45% of index is government related.
High Yield Bond	Barclays US Corporate High Yield	Index comprised of U.S. non-investment grade corporate bonds.
Global Bond	Barclays Global Aggregate	Index is comprised of global investment grade bonds from twenty-four Developed and Emerging local currency markets.
Real Estate	MSCI US REIT	Index comprised of equity REITS including industrial, mortgage, office, residential, retail, specialized and diversified REITS.
Commodity	Bloomberg Commodity	Index tracks price of basket of commodities including energy, grains, industrial metals, precious metals, softs (sugar, coffee and cotton) and livestock.
Hedge Fund	DB Hedge Fund	Index tracks performance of equity hedge, market neutral, systematic macro, event driven, credit & convertible and global macro.

Index Definitions: Indices include performance of both capital gains as well as dividends reinvested.

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2016 Q4 Insights: "A New Hope"

It's impossible to dissect the utterly strange fourth quarter we just experienced, without discussing the year in its entirety. Because in short, 2016 was simply flat out bizarre.

The year started out with recessionary fears taking center stage and stocks selling off. The carnage was widespread. The Dow Jones Industrial Average dropped 1000 points in the first 5 trading days and was down 2000 points by January 20th, while the broader S&P 500® experienced a 10% correction, undercutting the prior year's low and bottoming near 1810.

	INDICES	Q4	2016
STOCKS	***GLOBAL EQUITY***	***1.19***	***7.86***
	U.S. Large Cap (S&P 500)	*3.82*	*11.96*
	U.S. Small Cap (Russell 2000)	*8.83*	*21.31*
	International Developed Markets	*-0.71*	*1.00*
	International Emerging Markets	*-4.16*	*11.19*
BONDS	***GLOBAL BONDS***	***-7.07***	***2.09***
	U.S. Aggregate (High Quality)	*-2.98*	*2.65*
	U.S. High Yield (Low Quality)	*1.75*	*17.13*
	International Aggregate	*-10.26*	*1.49*
	Emerging Market Debt (USD)	*-2.61*	*9.88*
ALTS	*Gold*	*-12.56*	*8.63*
	Oil	*11.36*	*45.03*
	Commodities	*2.66*	*11.77*
	Master Limited Partnerships	*2.04*	*18.31*
	Real Estate Investment Trusts	*-2.96*	*8.60*
CASH	*Inflation*	*0.05*	*2.12*
	Cash (3-month T-bills)	*0.07*	*0.26*
	U.S. Dollar Index	*7.39*	*3.91*

All in all, it marked the worst start of a year for equities—ever! Mind you, nothing had fundamentally changed in the economy, but the fear of an upcoming slowdown trumped everything. In fact, in the first quarter we opined that capital markets had the recession call wrong but in the short-run, "***fear trumps fundamentals***." Even though the 't' was lower case and the middle word lacked an apostrophe, the title was a bit suspect for the political year of 2016—or was it extremely prophetic?

What began in fear ended in ebullience *with a renewed hope for 2017*. By the fourth quarter the stock market would morph, embrace the election, rally to new highs and seemingly "***love Trump's fundamentals***"—a fitting bookend to a strange (and historic) year. The market gyrations gave many investors' whiplash and tested the resolve of many financial plans—and for good reason as 2016 marked only the 3rd calendar year in the S&P 500's history with both a lower low and a higher high than the previous year (1935, 1982 being the other two examples per Strategas Research Partners).

What happened in between fear and ebullience? The middle of the year witnessed populist political movements accompanied by extreme moves in bond

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yields and currency markets—but not in troubled emerging markets as is normally the case. Rather, in keeping with the bizarre theme of 2016, such events occurred in two of the world's oldest superpowers—the UK and the U.S. Not only did both countries experience 180-degree political regime changes, inexplicably the economic outcomes from these two political earthquakes were themselves 180-degrees different. After Brexit, the British pound plummeted (reaching a 32-year low against the dollar) while yields on 10-year UK Gilts dropped to 0.50% marking an *all-time low*—which for England spans thousands of years! Fast-forward five months, however, and the reaction was quite the opposite. Post-Trump, the U.S. dollar appreciated to a 15-year high. Similarly, yields on the 10-year Treasury bond headed north and closed out the year at 2.44%. Two similar political movements producing diametrically opposite capital market reactions—bizarre indeed.

Q4 EQUITY

The post-election rally pushed the S&P 500 to an all-time high near 2271 before finishing the year a tad off at 2238—up 3.82% for the quarter and 11.96% for the year. During the coming year, U.S. citizens will see whether the economy becomes "*great again*" but capital markets are historically forward looking; pricing in events before they happen. With Brexit, investors had 72 hours to buy the dip. After Trump, investors had mere hours. As "candidate Trump" morphed into "President-elect Trump", the markets began to "*love Trump's fundamentals*" and price in most, if not all, of the anticipated news to be made in 2017.

Financials (+21.10%) led the way in Q4, with the sector benefiting from two tailwinds—the rise in interest rates (resulting from potential massive fiscal stimulus which is not only inflationary at full employment but also requires more debt issuance—both causing higher rates) and the prospect of widespread future deregulation throughout the sector. Energy (+7.28%) continued its rebound while industrials (+7.21%) gained ground on the expectation that future fiscal stimulus will target infrastructure spending. And in a rising interest rate environment, it comes as no surprise that the laggards included yield-play sectors like Utilities (+0.14%), Consumer Staples (-2.02%), and Real Estate (-2.96%) which brought up the rear.

From an investment style perspective, deregulation also helps level the playing field for smaller companies who don't have teams of legal advisors to find loopholes. Thus, Small Caps (+8.83%) posted strong results and outpaced their Large Cap (+3.82%) brethren for the 3rd quarter in a row.

Overseas, however, it was a completely different story. The rise in the U.S. dollar corresponded to a fall in overseas currencies, creating a significant headwind to overcome for assets priced in those currencies. International stocks (-1.25%) trailed U.S. stocks (+4.24%) for the fifth quarter in the last six. Furthermore,

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heated trade barrier rhetoric adversely impacted many countries, with Emerging Markets especially feeling the brunt (-4.16%).

Q4 FIXED INCOME

Depreciating currencies and the shift higher in interest rates took its toll on global bonds (-7.07%). Although U.S. bonds (-2.98%) outpaced foreign debt (-10.26%), the U.S. Aggregate Bond index still lost ground for first time this year as the yield on the 10-year treasury bond climbed 84 basis points in the fourth quarter. The lone bright spot could be found in bonds tied to the economy.
With an improving economy, recession risk abated and bankruptcy risk followed suit. Therefore, bonds tied to corporate credit (business cycle risk) outpaced Government bonds (interest rate/duration risk), with High Yield (+1.75%) leading all sectors.

2017 OUTLOOK

We would be remiss in suggesting that the stock market rally and upward move in interest rates was entirely election-driven. Since early summer, economic data has been steadily improving and corporate earnings are now turning positive after five consecutive quarters of declines. An improving economy allowed the Fed to raise rates again in December. However, we don't believe that this latest rate hike will cause the same market turbulence that we witnessed last January.

Why? Unlike last year the economy is now improving with profits turning up, credit spreads tightening, and manufacturing rebounding. Furthermore, the Fed is now seemingly on the same page with capital markets—again unlike last year. Therefore, the risk of a monetary policy error is seemingly off the table, at least for the first half of the coming year

So, what should investors look out for in 2017? Historically, the first year of the presidential cycle suggests positive yet muted gains. However, per Bespoke Investment Group, 'first years' that include a Republican-Challenger victor are especially tough. But 2017 marks a 'new hope' and the economic word of the year might just be "*elongate*." The current bull market is clearly getting long in the tooth but if pro-business and pro-growth policies can be put forth in a reasonable and thoughtful manner, the business cycle may be able to elongate allowing corporate earnings to grow 5-10% with stocks following. If the cycle cannot lengthen, current stock valuations will be major headwinds for any meaningful U.S. stock gains in the latter half of the year.

Deron T. McCoy, CFA, CAIA, CFP®, AIF®
Chief Investment Officer

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Presidential Elections Since 1928

		S&P 500 % Change						
Year	Election Day	YTD Thru Election Day	Election Day Thru Year-End	Full Year	Next Year	Winner	Winner	President
1928	11/6/28	27.41	8.22	37.88	-11.91	Incumbent	Republican	Hoover
1932	11/8/32	-10.84	-4.42	-14.78	44.08	Challenger	Democratic	FDR
1936	11/3/36	27.85	0.06	27.92	-38.59	Incumbent	Democratic	FDR
1940	11/5/40	-10.43	-5.20	-15.09	-17.86	Incumbent	Democratic	FDR
1944	11/7/44	11.05	2.47	13.80	30.72	Incumbent	Democratic	FDR
1948	11/2/48	9.15	-8.98	-0.65	10.46	Incumbent	Democratic	Truman
1952	11/4/52	3.49	8.01	11.78	-6.62	Challenger	Republican	Eisenhower
1956	11/6/56	4.66	-1.95	2.62	-14.31	Incumbent	Republican	Eisenhower
1960	11/8/60	-7.98	5.44	-2.97	23.13	Challenger	Democratic	Kennedy
1964	11/3/64	13.54	-0.50	12.97	9.06	Incumbent	Democratic	Johnson
1968	11/5/68	6.87	0.74	7.66	-11.36	Challenger	Republican	Nixon
1972	11/7/72	11.65	3.57	15.63	-17.37	Incumbent	Republican	Nixon
1976	11/2/76	14.31	4.23	19.15	-11.50	Challenger	Democratic	Carter
1980	11/4/80	19.55	5.21	25.77	-9.73	Challenger	Republican	Reagan
1984	11/6/84	3.32	-1.86	1.40	26.33	Incumbent	Republican	Reagan
1988	11/8/88	11.36	0.93	12.40	27.25	Incumbent	Republican	Bush I
1992	11/3/92	0.68	3.76	4.46	7.06	Challenger	Democratic	Clinton
1996	11/5/96	15.94	3.72	20.26	31.01	Incumbent	Democratic	Clinton
2000	11/7/00	-2.54	-7.79	-10.14	-13.04	Challenger	Republican	Bush II
2004	11/2/04	1.67	7.20	8.99	3.00	Incumbent	Republican	Bush II
2008	11/4/08	-31.51	-10.19	-38.49	23.45	Challenger	Democratic	Obama
2012	11/6/12	13.58	-0.15	13.41	29.60	Incumbent	Democratic	Obama
2016	11/8/16	4.68	5.94	10.90	?	Challenger	Republican	Trump
	Average	5.98	0.80	7.17	5.13			
	Median	6.87	0.93	10.90	5.03			
	% Positive	78.3%	60.9%	73.9%	54.5%			

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