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After a stock market selloff in early November leading up to the election, the market recovered and made new all-time highs late in the month. The S&P 500 finished the month up 3.7% bringing its year-to-date gain to 9.8%. Small cap stocks in the Russell 2000 index had a great month up 11.2% in November bringing their year-to-date return up to 18%. International stocks in the MSCI EAFE index didn't fare as well and were down -2.0% in the month resulting in a year-to-date return of -2.3%. Meanwhile, the yield on the 10-year US Treasury Bond rose sharply from 1.83% to 2.37% giving bonds negative returns as well with a -2.4% loss in the Barclays Aggregate Bond Index for the month.

Now that the election is behind us we can refocus on the implications of the outcome and on the economic picture that lies ahead. Conventional wisdom told us that the market would likely sell-off in the wake of a Trump victory because of all the unknowns that would exist. The "sell-off" only occurred in the futures market and in the bond market as uncertainty gave way to optimism. Sectors that performed best were those that would likely benefit from less regulation and from higher defense and infrastructure spending. The leading industry performers were Construction & Engineering, Multiline Retail and Banks. The worst performers were Tobacco, Food Products and Electric Utilities.

Yields rose sharply after the election as investors expect a more growth oriented environment which could lead to higher inflation. When bond yields move up so quickly it is rather disruptive for bond prices. We did see a fairly significant decline in bond prices for the month.

Economic growth as measured by U.S. Real GDP was up 3.2% in the third quarter. This is a significant acceleration relative to recent quarters and to the trend over the past several years. Analysts anticipate strong growth to continue in the fourth quarter but probably at a more subdued pace around 2.5%. Analysts are beginning to raise growth expectations for future quarters based on Trump's stated economic goals. The one obvious concern that could derail the potential for improved growth is the possibility of a trade war caused by policy mistakes.

Corporate earnings rebounded sharply in the third quarter surging 6.6% and showing positive growth for the first time since the first quarter of 2015. Of the S&P 500 companies that have reported so far, 72% have beat their earnings estimates and 54% have beat their revenue estimates. Analysts expect the earnings growth to continue in the fourth quarter and to be in the double digits in 2017 and 2018.

International stock markets continue to lag US markets. While the immigration crisis and economic uncertainty continue to plague Europe and massive debt and slow growth creates a hangover for Japan, valuations are relatively attractive and early signs of economic recovery are beginning to emerge especially in parts of Europe. Upcoming elections in Europe add to uncertainty but there is a possibility that favorable outcomes could create opportunities internationally.

We are beginning to see rotation in the markets where money flows out of one asset class or economic sector and into others. Concentrated portfolios can create big winners and losers in this environment. We believe that diversification is prudent in protecting and growing portfolios in times like this. If you have questions about your account, please do not hesitate to contact your advisor.

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