

Economic and Stock Market Outlooks

Overall Outlook

- In the first day of trading following a Brexit-like outcome to the U.S. Presidential election, global equity markets responded negatively. Yet like the quicker-than-normal bottoming and recovery following the post-Brexit selloff, we think any near-term decline represents a buying opportunity. Indeed, market weakness after presidential elections has typically been the norm. In the first day, week and month after Election Days since 1952, the S&P 500 rose in price 40%, 40% and 60% of the time, respectively. Following Republican victories, frequencies of one day, one week, and one month price gains were 60%, 60%, and 80%, respectively, while S&P 500 advances following Democrat victories were much less convincing at 20%, 20% and 40% of the time.

Economic Update

- With factors related to lower potential output and changing savings and investment preferences putting downward pressure on U.S. equilibrium interest rates, S&P Global Economics expects long-term borrowing costs to remain lower over the next decade than they were, on average, in the two decades leading up to the Great Recession. Reasons include increased global savings, less global demand for investment, global shortage of safe assets, shifting demographics, and changes in productivity growth. Many of these forces affecting real interest rates look to linger longer and/or unwind only partially in the coming years, thus indicating that benchmark bond yields are unlikely to return to average levels of the past two expansion periods.

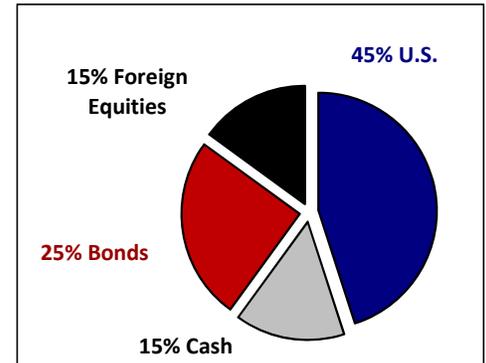
Fundamental Update

- Wall Street analysts are now expecting Q3 2016 operating EPS to come in much stronger than initially expected. Specifically, Q3 results are projected at \$30.62, for a year-over-year increase of 3.6%, up from the early estimate of a 1.5% drop. Nine of 11 S&P sectors are seen reporting EPS growth, led by financials, materials and utilities. Consumer discretionary, consumer staples, health care, industrials, real estate and technology are also expected to post increases. The energy sector should record the largest EPS decline, at more than 67%, though less than earlier estimates. The telecom services group should also record a decline. Finally, S&P 500 EPS growth for 2017 has slipped to 11.9% from 13.6% on 9/30/16, according to data from S&P Capital IQ.

Technical Update

- Despite the overnight election volatility, market expectations stay the same. The big picture bias in the SPX remains bullish while above the key support zone at 2085-2115, and a pullback to this support would represent a prime buying opportunity. In addition, a break above resistance at 2150-2165 would confirm that a very large rally is getting underway. There are many factors in alignment supporting the potential for a new rally leg being initiated from this zone of support. However, if the SPX should breach 2085, and if the NDX and RUT should fail to hold their supports, it would send a significant message of unwillingness to take advantage of such an opportunity and would represent a potential major problem for the stock market.

Recommended Moderate Allocation



S&P 500 EPS Growth Estimates

S&P 500 Sector	Year-Over-Year % Changes				
	Q1A	Q2A	Q3E	Q4E	Year
Cons. Disc.	21.3	14.3	5.7	1.7	10.0
Cons. Staples	0.8	(0.8)	7.0	8.1	3.8
Energy	(106.6)	(86.1)	(67.7)	(6.6)	(76.8)
Financials	(1.7)	7.0	14.3	13.1	14.2
Health Care	8.0	6.3	5.9	5.3	6.4
Industrials	(3.3)	13.5	2.0	(4.1)	2.1
Info. Tech.	(3.9)	2.2	9.6	5.9	3.6
Materials	(11.2)	(4.2)	12.5	8.8	0.0
Real Estate	(11.0)	(3.0)	0.7	(9.8)	(15.5)
Telecom Svcs.	9.1	(2.6)	(2.6)	(0.5)	0.8
Utilities	(2.5)	11.3	12.2	8.3	7.2
<b>S&amp;P 500</b>	<b>(6.8)</b>	<b>(1.8)</b>	<b>3.6</b>	<b>4.6</b>	<b>(0.1)</b>

Source: S&P Capital IQ.

Targets

<b>12-Month S&amp;P 500: 2250</b>
<b>S&amp;P 500 EPS 2015E: \$117.13, '16E: \$131.07</b>
<b>S&amp;P 500 Revenues '16E: 3.0%, '17E: +7.0%</b>
<b>Real GDP Growth 2016E: 1.5%, '17E: 2.4%</b>
<b>Core CPI 2016E: 2.2%, '17E: 2.0%</b>
<b>Fed Funds Rate 2016E: 0.4%, '17E: 0.8%</b>
<b>10-Year T-Note 2016E: 1.8%, '17E: 2.2%</b>
<b>Exchange rate 2016E: 91.4, '17E: 94.0</b>
<b>WTI Avg. 2016E: \$42, '17E: \$51/bbl.</b>

S&P 500 GICS Sector Performances and Recommended Sector Weightings

11/8/16

S&P 500 Sector	% Change			P/E on '17e EPS	'17e P/E to Proj. 5-Yr. EPS Grth.	Actual Sector % Weightings	Recommended S&P Sector Emphasis	Over/Under Weight
	Nov.	YTD	2015					
Consumer Discretionary	0.9	0.8	8.4	17.3	0.9	12.2	Overweight	0.3%
Consumer Staples	(0.1)	4.3	3.8	19.3	2.2	10.0	Marketweight	0.0%
Energy	1.1	13.8	(23.6)	30.3	5.2	7.2	Underweight	-0.2%
Financials	1.2	3.1	(3.5)	12.2	1.5	13.4	Marketweight	0.0%
Health Care	1.4	(5.3)	5.2	14.3	1.3	14.1	Overweight	0.3%
Industrials	1.7	8.5	(4.7)	16.6	1.6	10.1	Marketweight	0.0%
Information Technology	(0.1)	10.8	4.3	16.2	1.3	21.5	Marketweight	0.0%
Materials	1.0	8.3	(10.4)	15.9	1.7	2.8	Marketweight	0.0%
Real Estate	(1.0)	(1.3)	1.2	37.5	4.5	2.9	Marketweight	0.0%
Telecommunication Services	(0.8)	4.4	(1.7)	12.5	2.5	2.5	Marketweight	0.0%
Utilities	(0.6)	13.3	(8.4)	17.5	3.2	3.3	Underweight	-0.4%
<b>S&amp;P Composite 1500</b>	<b>0.6</b>	<b>5.0</b>	<b>(1.0)</b>	<b>16.4</b>	<b>1.5</b>			
<b>S&amp;P 500</b>	<b>0.6</b>	<b>4.7</b>	<b>(0.7)</b>	<b>16.3</b>	<b>1.5</b>			
<b>S&amp;P MidCap 400</b>	<b>0.3</b>	<b>8.2</b>	<b>(3.7)</b>	<b>17.9</b>	<b>1.7</b>			
<b>S&amp;P SmallCap 600</b>	<b>0.5</b>	<b>8.1</b>	<b>(3.4)</b>	<b>17.6</b>	<b>1.4</b>			

Source: CFRA, S&P DJ Indices, S&P Capital IQ

Sector recommendations are market-cap weighted, influenced by economic, fundamental, and technical considerations.

Please see the required disclosures and glossary on the attached pages.

## Glossary

### ★★★★★ 5-STARS (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

### ★★★★☆ 4-STARS (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

### ★★★☆☆ 3-STARS (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

### ★★☆☆☆ 2-STARS (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

### ★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

### CFRA Ranking Definitions:

**Overweight** rankings are assigned to approximately the top quartile of the asset class.

**Marketweight** rankings are assigned to approximately the second and third quartiles of the asset class.

**Underweight** rankings are assigned to approximately the bottom quartile of the asset class.

### S&P Capital IQ Quality Ranking

Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ earnings and dividend rankings for common stocks, which are designed to capsule the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of ranking.

A+ Highest	B Below Average
A High	B- Lower
A- Above Average	C Lowest
B+ Average	D In Reorganization

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