

December 2016

EQUITY MARKETS

U.S. equities continued their post-election rally and furthered their advance in December. Similar to last month, small caps stocks again outpaced large cap stocks and value outperformed growth stocks. International stocks generated positive returns, with developed markets outpacing the S&P 500 and emerging markets barely in the black. For the full year, U.S. equities easily outpaced international markets. Small cap and value stocks handily outperformed large cap and growth stocks.

FIXED INCOME MARKETS

Interest rates, in a repeat of November, again increased across the yield curve, though at a more modest pace. After hitting 2.60% in the middle of the month, the yield on the 10-year Treasury ended December with an 8 basis point increase to 2.45%. High yield bonds, yet again, outpaced more interest rate sensitive fixed income sectors. Municipal bonds recovered some of the losses experienced last month and outperformed corporates and treasuries. For the full year credit fared better than interest rate exposure. High Yield bonds easily outpaced investment grades and treasuries. Despite the challenges of the last few months, Munis posted a modest positive return for 2016.

ECONOMIC DATA

As expected, the Federal Open Market Committee voted to increase the target range for the federal funds rate to ½% to ¾%. Economic data were mostly positive for the month. Third quarter GDP was revised up to 3.5%, the best level since the third quarter of 2014. The ISM Manufacturing and Non-Manufacturing indices signaled improving business conditions, and the University of Michigan Consumer Sentiment Index bounced to its highest level since January 2004. Existing home sales recovered to levels last seen in February 2007. Moving toward the critical holiday selling season, retail sales missed expectations and declined from the prior month.

Event	Period	Estimate	Actual	Prior	Revised
Nonfarm Payroll	Nov	180,000	178,000	161,000	142,000
Unemployment	Nov	4.9%	4.6%	4.9%	
ISM Manufacturing	Nov	52.5	53.2	51.9	
ISM Non-Manufacturing	Nov	55.5	57.2	54.8	
Retail Sales ex Auto & Gas	Nov	0.4%	0.2%	0.6%	0.5%
PPI MOM	Nov	0.1%	0.4%	0.0%	
PPI MOM ex Food & Energy	Nov	0.2%	0.4%	-0.2%	
PPI YOY	Nov	0.9%	1.3%	0.8%	
PPI YOY ex Food & Energy	Nov	1.3%	1.6%	1.2%	
CPI MOM	Nov	0.2%	0.2%	0.4%	
CPI MOM ex Food & Energy	Nov	0.2%	0.2%	0.1%	
CPI YOY	Nov	1.7%	1.7%	1.6%	
CPI YOY ex Food & Energy	Nov	2.2%	2.1%	2.1%	
Industrial Production	Nov	-0.3%	-0.4%	0.0%	0.1%
Housing Starts	Nov	1,230,000	1,090,000	1,323,000	1,340,000
Building Permits	Nov	1,240,000	1,201,000	1,229,000	1,260,000
New Home Sales	Nov	575,000	592,000	563,000	
Existing Home Sales	Nov	5,500,000	5,610,000	5,600,000	5,570,000
Leading Index	Nov	0.1%	0.0%	0.1%	
Durable Goods Orders	Nov (P)	-4.8%	-4.6%	4.6%	4.8%
S&P CoreLogic CS 20-City YOY	Oct	5.03%	5.10%	5.08%	5.03%
Personal Income	Nov	0.3%	0.0%	0.6%	0.5%
Personal Spending	Nov	0.3%	0.2%	0.3%	0.4%
GDP Annualized QOQ	3Q (T)	3.3%	3.5%	3.2%	
Univ. of Mich. Sentiment	Dec (F)	98.0	98.2	98.0	

F = Final, P = Preliminary, T = Third

Source: Bloomberg



Monthly Recap

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