Inching Ahead

Monthly Market Outlook Update – November 30, 2015

Stocks inched forward during the month of November, with the S&P 500 Index providing a total return of 0.3%. November’s small gain pushed the year-to-date total return for the S&P 500 Index to a gain of 3.0%. The stock market seems to be waiting to see what the Federal Reserve Board (Fed) does at its December meeting.

Among our three indicators, stock price momentum is improving, although still negative, while the other two remain positive as shown below.

<table>
<thead>
<tr>
<th>Market Related Factor</th>
<th>Direction</th>
<th>Our Market Outlook</th>
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<tbody>
<tr>
<td>Stock Price Momentum (S&amp;P 500)</td>
<td>50-day and 200-day averages are negative, but improving.</td>
<td>Negative</td>
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<tr>
<td>S&amp;P 500 Net Profit Margins</td>
<td>Continue at historically high levels.</td>
<td>Positive</td>
</tr>
<tr>
<td>Shape of Yield Curve</td>
<td>The yield curve remains positively sloped but rates on short maturities have moved up.</td>
<td>Positive</td>
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The Fed is expected by many observers to raise interest rates sometime soon. However, with the weakness in energy and industrial businesses, we expect any increase will be very small and the Fed will be cautious about further increases next year. We think it’s important to make the distinction that any rate increase should be viewed as an unwinding of Fed policy, rather than trying to cool an overheating economy.

 Companies have continued the trend of implementing stock buybacks and increasing dividends rather than investing in facilities and equipment. The lack of capital spending may reflect expectations of low sales growth. Stock buybacks and higher dividends help stock prices, and total return.

The economy, as measured by gross domestic product, has been growing slowly this year. However, conditions vary considerably among economic sectors. With crude oil and natural gas prices down dramatically, energy companies are in a depression and are cutting costs accordingly. Industrial company revenues are soft due to the negative effects of a strong dollar, lower commodity prices in general and weak capital spending. Companies in the consumer, health care and financial sectors have been doing better with auto companies and airlines doing well.

Inadequate demand/revenue growth appears to be caused by conservative spending attitudes by individuals and corporations, perhaps a residual effect from the shock of the Great Recession of 2008/2009. When companies find revenues shrinking, expenses are reduced quickly to maintain margins, which may explain why the corporate margin indicator has remained at high levels.

**Conclusion** – The economy’s overall slow growth consists of a range of conditions from a depression in the energy sector to a very strong auto industry. The Fed may raise interest rates slightly in December, but they would like to see stronger demand and economic growth. Market momentum has improved lately, and our other indicators are positive such that we generally remain constructive on stocks going into next year.

If you have questions or whenever we can be of service, please contact:

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First Use: 12/2015.
Market Outlook Indicators

S&P 500 Moving Average Indicator as of November 30, 2015
Source: Thomson One

S&P 500 Net Profit Margin 1/1/99 - 11/30/15
Source: Thomson One

Treasury Yield Curve As of 11/30/15
Source: US Department of Treasury

The S&P 500 is an unmanaged index commonly used to measure and report performance of the stock market. Indices are unmanaged; direct investment is not an option. Past performance is not an indication of future results. The Treasury Yield Curve relates the yield on a security to its time to maturity is based on the closing market bid yields on actively traded Treasury securities in the over-the-counter market. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York.