Weekly Commentary **November 25, 2016**

JEREMY SIEGEL .com

Make the Trend your Friend; Trump Moderation drives Markets

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Only history will tell us whether this remarkable equity rally since Trump's election is justified or not. But, in the meantime, it hard to stand apart from this massive shift from bonds to equity. Since the election, the Russell 3000 has gained about 7% while the ten year treasury has lost about 3%, for a 10 % relative shift in price between the world's largest asset classes. Active managers, most of whom have been lagging the indexes this year, will be hard put to watch this equity rally from a distance. In the remaining weeks of the year, some might pile into stocks just to prevent from losing even more ground, whatever their feelings about the underpinnings of this rally.

Most of the equity rally comes from the continued hope that Trump has turned more moderate than his campaign rhetoric suggested. Indeed, the market's expectations of the bad "tail" of Trump's policies – restrictions, tariffs, and quotas on foreign trade, continues to fade. Trump appeared to turn more moderate on many hot button issues in his interview with the *New York Times*. Of course, it is still extraordinarily early in the transition and there is no definitive word yet on his selection of Secretary of Treasury or any Fed officials. Nor do we know, in response to the 4% depreciation of the Chinese RMB since the end of September, whether he will brand China a "Currency Manipulator."

In the meantime, there is certainly nothing exciting happening in the real economy. Today's much weaker-than-expected October trade deficit combined with lower than expected retail inventories, pushed many estimates of Q4 growth below 2% (although Goldman still expects 2 ½%). The second estimate of Q3 growth is coming out next week, and it will likely be bumped up from 2.9% to 3.0%, but overall economic growth in 2016 has been extremely sluggish.

The labor market report next Friday is clearly the most important scheduled event next week. Estimates are for 170k job growth, while the unemployment rate is expected to stay at 4.9%, implying, if the household job figures are similar, another increase in the participation rate. Nevertheless unless a bomb falls onto the economy in the next two weeks, or Trump initiates a trade war, a December 14 Fed rate hike is baked into the data. And the Fed Funds futures markets expects another rate hike by the June meeting, although I believe that a March hike is still very possible if bond and stock trends continue into the new year. Of course by then, we will have a much better idea of the direction of the new Trump administration.
