Plimoth Investment Advisors®
Investment Management & Trust Services Specialists

FOURTH QUARTER – WINTER 2016

Investment Spotlight

"Win or lose, we go shopping after the election."
– Imelda Marcos

As investment professionals we always maintain a focus on the data and facts surrounding the economy and markets in an effort to continually make prudent and disciplined investment decisions on behalf of our clients. We believe intermediate and long-term market movements will ultimately depend on the aggregate health of the U.S. and global economies. However, in the short-term, we recognize that meaningful news headlines of a variety of types can influence investor's short-term sentiment and drive a high volume of "behavioral" trading. This is true even though the "real" impacts of the headlines are often times purely speculative.

Such is the case with our recent presidential election. The U.S. stock market was trading with roughly a 5% year-to-date gain two weeks prior to the election with the expectations that Hilary Clinton would win the election. With a continuation of political control in the executive branch, investors did not have to consider the uncertainties of an administration change. As election-day approached and polls tightened, stocks gave back most of the year-to-date gains. Investors became concerned about the uncertainties that a Donald Trump victory may bring about, and showed their wariness by selling risk-based assets like stocks. We believed that a Trump victory would likely result in a market sell-off in the 5% range, similar to the uncertainty that swept over the markets after the British surprisingly voted to exit the European Union. However, much like the post-Brexit trade, we also believed markets would quickly recoup the losses.

On the evening of the election, as it appeared more and more likely that Donald Trump would win, the Dow Jones Industrial Averages (DJIA) futures collapsed by over 900 points, suggesting an ugly day when the markets officially opened the following morning. However, throughout the early morning hours the futures market improved and the market opened only modestly lower. Then by the end of the day, the DJIA actually closed up by 257 points. Since the election, the blue chip index has set several all-time highs, while falling just short of reaching the 20,000 level as of this writing.

What changed overnight? Why did sentiment go from catastrophic fear to cautious optimism, only to turn into unbridled enthusiasm in the final weeks of the year? The fear of what a Trump administration may mean in terms of economic and geopolitical policy gave way like a burst dam, with those who were perhaps positioned more defensively ahead of the election uncertainty rushing back into the market so as not to miss out on the opportunity for gain. The post-election trade was purely behavioral, or at least the beginning of it was. Fundamentally, little changed due to the election results in real terms. What has changed, at least for now, are expectations of the future, even though in practical terms, the actual policy initiatives of the new administration are not fully known. The impacts of these eventual changes will not show up in economic data for many months after they are implemented. At this point, the policy discussions have been deemed as "pro-growth" by investors, sending them shopping for stocks and fueling the equity rally which has driven markets to all-time highs. ■

Keep up with market activity by visiting www.plimothinvestmentadvisors.com. Our weekly market commentary can be found at the "Market Commentary" button in the lower right hand corner.

Economic Review & Outlook

The U.S. economy struggled even more than we had become accustomed to in the first half of 2016. Registering 0.80% and 1.40% respectively, the 1st and 2nd quarter GDP weakness made even a 2% growth rate for the year a challenge. The weakness was wide-spread across consumer spending, business spending, investment and export activity. Housing and employment remained strong enough to keep the economy moving, albeit at a very slow pace. Third quarter GDP rebounded strongly to 3.50%, with exports driving the strongest quarterly growth since September of 2014. Other positive drivers of growth included consumer spending, business investment and a rebuilding of inventories that had been drawn down during the first half of the year. Despite the strong headline number, exports were actually driven by a unique and likely non-recurring sharp uptick in soy bean exports. Thus, we were suspect of the underlying strength of the 3rd quarter number, as we believed it to likely be transitory.

Despite some real signs of improvement during the 3rd quarter, we were expecting the final quarter of 2016 to drift back to the slower trend growth that has been emblematic of this recovery. While the first estimate of fourth quarter GDP has not been released as of this writing we have been pleasantly surprised by some of the carry-over strength from Q3 in business spending, certain areas of consumer spending (online shopping and autos in particular), an uptick in wage growth and housing activity. Finally, we have also witnessed a spike in consumer confidence, which by one measure is the highest since September of 2001. Should this increase in confidence translate into stronger consumption, growth during the first quarter might also buck the trend of the last several years.

We see two general paths heading into 2017. The first path continues the trend-line growth expectations which have been established since the beginning of the post-recession recovery. This path suggests a continuation of growth in the range of 2.0% to 2.5%, with moderately rising interest rates amid continued concerns over global economic factors throughout Europe and emerging markets. The second path is more optimistic with growth returning to “normal” expansionary GDP growth of 3% or greater by the end of the year. This scenario is based on the possibility that real wage growth and increased optimism in the business community will drive consumption and aggregate economic activity. This would be supported by “pro-growth” policy initiatives in the areas of taxation, infrastructure spending and deregulation that could positively impact growth during the latter half of the year and beyond. ■

	Q4-2016	YTD-2016
Consumer Discretionary	2.31%	6.03%
Consumer Staples	-2.02%	5.38%
Energy	7.28%	27.36%
Financials	21.10%	22.80%
Healthcare	-4.00%	-2.69%
Industrials	7.21%	18.86%
Information Technology	1.19%	13.85%
Materials	4.70%	16.69%
Telecommunications	4.78%	23.49%
Utilities	.14%	16.29%

Bond Review & Outlook

Heading into the final quarter of the year, bond yields remained pressured across the globe. The 10-Year U.S. Treasury bond traded with a yield of 1.61% to open the quarter, while lower-credit European bond yields were even lower. Almost a decade of low rate policies by global central banks continued to weigh on bond yields. In the U.S. yields remained low even though the U.S. Federal Reserve continued to suggest that short-term rate hikes remained on the horizon. The Fed had promised four hikes during 2016, but had failed to deliver on any, bowing to concerns over sustainable economic growth and other global factors leading to economic uncertainty. Additionally, little signs of inflation gave the Fed sufficient cover to remain "dovish" in their policy.

The election results that fueled the global equity rally gave the Fed the opportunity to raise rates during the December meeting, for the first time since December 2015, without sparking an equity market sell-off. Long-term bond yields had already risen sharply ahead of the Fed's pending decision, which by December looked like they were just catching up to overdue realities already realized in the marketplace. By the close of the year, the long-term bond yield rose to 2.45%. The surprising economic strength of the 3rd and 4th quarter along with rising wages provided the economic rationale for an upward adjustment to the Federal Funds Rate. At the December meeting the rate was increased by .25% and the Fed's 2017 outlook calls for 3 more rate hikes.

The sell-off in long-term bonds was proportionately similar to the interest in buying risk-based assets like stocks. We believe the sell-off was overdone and yields rose more than the current economic fundamentals justify. We would expect long-term yields to remain range bound in the current environment until more economic data is released which will either justify the 4th quarter action or present a buying opportunity for fixed income investors. ■

	Q4-2016	YTD-2016
Cash:		
T-Bill Index	0.08%	0.27%
Taxable Fixed Income:		
Barclays US Agg. Bond	-2.98%	2.65%
Barclays Govt./Credit Int.	-2.07%	2.08%
Barclays Govt./Credit Long	-7.84%	6.67%
BofAML High Yield Index	1.88%	17.49%
Tax Exempt Fixed Income:		
Barclays Muni. 5 yr.	-2.63%	-.39%
Barclays Muni. 7 yr.	-3.67%	-.50%
Barclays Muni. TR	-3.62%	.25%

Stock Market Review & Outlook

2016 began with a major equity market sell-off, with the S&P 500 falling by 11% over the first six trading weeks. Plummeting oil prices, flagging economic growth and liquidations by sovereign wealth funds pressured risk-based assets across the globe. The decline was reminiscent of the summer sell-off of 2015, and recovered just as quickly. Within six weeks the broad index had recouped losses and within a couple of weeks of the election, was trading with a gain of approximately 3% with very low market volatility.

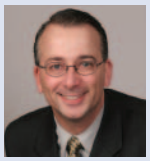
After the initial panic in the futures market the night of the election, the post-election rally was fueled by price appreciation in higher risk sectors that had been lagging during the preceding months. The early "dividend-producing" darlings of 2016 in the Utility, Telecommunication and Consumer Staple sectors gave way to more economically sensitive areas of the stock market including Financial, Energy and Industrial stocks. Financial stocks were particularly strong in the rally as the possibility of higher interest rates and looser regulation drove investors to the sector.

Large capitalization stocks which had been leading market returns over the past couple of years continued to post solid gains while mid-cap and small-cap stocks caught a strong bid during the late year rally, improving by over 20% and 21%, respectively during the quarter. Value stocks continued to gain significantly stronger interest from investors throughout the year and the closing rally, outpacing their more growth-oriented peers. On the international front, developed markets struggled to remain positive for the year, while emerging markets rebounded from the 2015 selloff and posted respectable gains in line with the broad U.S. market. ■

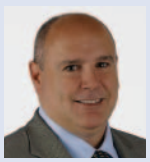
	Q4-2016	YTD-2016
DJIA Index	8.66%	16.50%
S&P 500 Index	3.82%	11.96%
Russell 2000 Index	8.83%	21.31%
EAFE Index	-.68%	1.51%

Meet the Plimoth Investment Advisors Executive Leadership Team

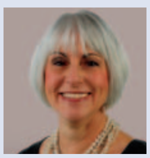
George Oliveira, CFP®, CTFA
Chairman of the Board
508-675-4310
goliveira@pliadv.com



Steven A. Russo, CFA
President & CEO
508-591-6202
srusso@pliadv.com



Louis E. Sousa, CFA
Senior Vice President & Chief Investment Officer
508-675-4313
lsousa@pliadv.com

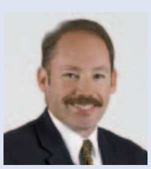


Susan Sartini, CTFA
Senior Vice President & Senior Trust Officer
Department Head - Trust Administration
508-591-6203
ssartini@pliadv.com

Joseph R. King
First Vice President & Trust Officer
774-319-3695
jking@pliadv.com

Edward J. Misiolek
First Vice President & Operations / Compliance Officer
Department Head - Operations
508-675-4316
emisiolek@pliadv.com

Meet Our Business Development Team



Thom Miller
Vice President / Relationship Officer
Individual & Institutional Accounts
781-320-4865
tmiller@pliadv.com

Lucia Rebelo
Retirement Plan Officer
508-742-4714
lrebelo@pliadv.com

Closing Thoughts

Throughout this recovery we have identified a pattern of growth where the final quarter of each year experiences weak activity due to future uncertainty which then carries over into the first quarter of the new year. This has generally been followed by a strong spring quarter and reasonable activity during the summer months. 2016 followed this pattern, though the first two quarters were weaker than prior years. This year the third quarter saw a strong rebound in growth, and economic data from the final quarter appears healthy. This will be the first year in many that we seem to be entering the new year with some degree of economic momentum. Should this carry over into the first quarter of 2017, we will have to consider the stronger path for 2017 growth.

As always, we will continue to monitor economic and market conditions to ensure timely and appropriate investment action. We will also be watching voters, whether their presidential candidate won or lost, to see if they will go shopping.

If we can be of assistance, please do not hesitate to call us at the numbers provided. ■

If you are interested in receiving this quarterly newsletter electronically, please contact Thom Miller at tmiller@pliadv.com. We will be happy to take you off the mailing list and add you to the e-mail list.