

December, 2016

Dear Clients and Friends,

Reading over our last few “Year End Letters” to you, we see a recurring theme: the stock markets generally moving up, but with volatility, uncertainty, and a vague sense of unease, as if the music was about to stop in a game of musical chairs. As 2016 draws to a close, the record player may be skipping, but the music seems as loud as ever.

A common exclamation in 2016 seemed to be, “Did that really just happen?” Did Britain really vote to leave the European Union? Did Donald Trump just win the White House? And in recent days, did the markets just close – again – at an all-time high?

Regardless of how we got here, in any current discussion of the markets, the economy, and the future, the presence of our new Administration looms large. As surprising as the election was, even more surprising to us has been the post-election rally. The night of the election, the futures markets ominously dropped hundreds of points. But as dawn broke, markets soared, and the Dow is now nearing 20,000. Investors have seemed to grab on to the most business-positive potential features of a Trump presidency - reduced regulation, Federal spending on infrastructure to create jobs, a focus on manufacturing within the US instead of outsourcing -- and are hanging on for dear life.

In reality, nothing has really happened yet. The new Administration won't take office until January, and the team is still being formed. But that process has sowed uncertainty as well. The executive team may include the CEO of Exxon as Secretary of State, an outspoken China critic as trade advisor, and a minimum wage opponent for Secretary of Labor. One might ask if Trump is draining the swamp, or adding more alligators. That being said, a staff of experienced business executives running the Executive Branch may be just what the economy ordered. Again, the market seems to think so.

It remains to be seen if the social effects of new policies will place a drag on the business world they were meant to support. The stock market seems to like what it sees now, but over time, actual results – earnings growth, employment, and trade – make the differences. The stock market more than doubled during the tenure of Barack Obama, who was initially labeled an anti-business president. Who is President is not the only factor in the economic success of the country.

More than ever, uncertainty seems to reign. Uncertainty about the political climate in the US, European unity and the rise of nationalism, and the continuing caldron that is the Middle East. In the face of all this, we at Stewart & Patten feel no need to vary from the investment strategy that has served us well in other uncertain times. A balanced portfolio of stocks and bonds will allow our clients to participate in a strong market, but cushion the blow should markets decline. We continue to closely monitor the individual companies that we invest in and how they may be affected by the changes underway.

The night after the election, a diverse crowd of mostly young people marched down Market Street in front of our office, railing against the election of Mr. Trump. Of course, San Francisco may not be the bellwether of Middle American sentiments. While the crowds have dispersed, there seems to remain a general feeling of unease about what lies ahead. If this country can retain its spirit, pride, and ambition – while remaining a place of tolerance and equality – then the economy, and the markets, will succeed in the long term.

Wishing you a Healthy, Happy, and Prosperous New Year.

Stewart & Patten Co. LLC