Vestor Capital
INVESTMENT & WEALTH MANAGEMENT

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Market Update:

Presidential Election - Market Implications as of February 21, 2017

Summary

We believe that the strength in the U.S. Equity Market since the presidential election this past November is due to investors discounting faster economic growth going forward due to policy changes under the incoming administration. The end result of a stronger economy is higher corporate earnings, which ultimately drive stock prices. Since the election, we have made equity portfolio changes to position our proprietary equity offerings for the economic environment we anticipate over the coming years.

Key Policy Changes and Implications

1. ***Reduction in Business Regulations***
   President Trump has proposed that for every enacted law, two laws be removed. It has been estimated that reduced regulations could be a $1 trillion stimulus to the economy.

2. ***Corporate Tax Reductions***
   While official details have not yet been forthcoming, some form of tax relief is coming. Tax rates for U.S. corporations are amongst the highest in the world. Besides increasing profitability, this would encourage more companies to locate in the U.S., which would be a positive for job growth.

3. ***Pro Energy Policies***
   Several proposed pipelines that were in a regulatory state of uncertainty have already been approved. In addition, we expect greater access to energy reserves through faster approvals. Access to cheap natural gas will benefit chemical companies.

4. ***Infrastructure Spending***
   Details have not been released, but a large infrastructure bill will likely be presented. Some estimates are for $1 trillion in additional spending which would be a positive for companies in the materials sector.

5. ***Inflation Pick-Up***
   Stronger economic growth typically results in higher inflation. This in turn leads to higher interest rates as monetary policy tightens to dampen inflationary trends. We do not expect inflation to overheat but simply to return to more normal levels.

Noteworthy Portfolio Adjustments

1. ***Increased Weighting in Growth Stocks***
   Growth stocks significantly underperformed value stocks in 2016. Expecting this trend to reverse, we have added select Exchange Traded Funds (ETF's) to gain immediate and broad exposure.

2. ***Infrastructure/Energy Positioning***
   Increased infrastructure spending will benefit a variety of companies in the materials sector including steel, aggregates and mining. We purchased the Guggenheim Equal Weight Materials ETF to gain broad exposure to companies that will benefit from infrastructure spending. We also added the JPMorgan Alerian MLP ETN which maintains a portfolio of pipeline and storage companies that will benefit from increased energy volumes.

3. ***Financial Sector – Increase Bank Exposure***
   Faster economic growth and higher interest rates are key inputs for increased bank profitability, providing the rationale for increasing our bank weighting.

The recent advance in the equity market is a leading indicator that economic growth and corporate profits are poised to accelerate. Valuation levels are generally in line with the long-term average, giving us comfort that the recent rally is well supported. There will undoubtedly be market setbacks as historically the market averages a pullback of approximately 14% each year. We would view these as buying opportunities as the foundation is being set for stronger corporate earnings growth going forward. We look forward to providing periodic updates over the coming year.

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