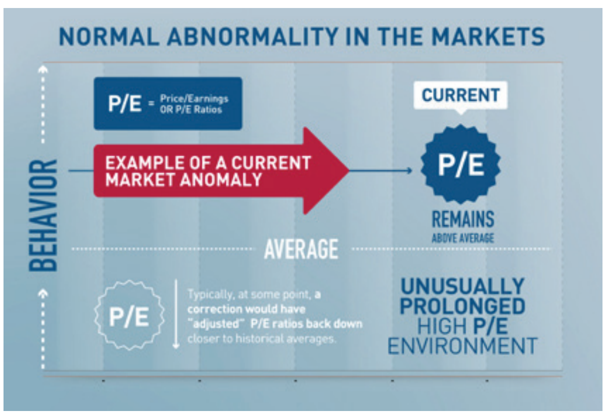
NORMAL ABNORMALITY IN THE MARKETS

Accurately predicting how the stock market will perform in the future is difficult, if not impossible. Unanticipated events take place that impact the markets in unforeseen ways. For example, a poor jobs report, earnings forecasts that are not met, or a global event can generate volatility or market downturns, while earnings reports above projections or unexpected positive momentum in global GDP can result in upward movement in the markets. It can be difficult to understand what events or circumstances are most likely to impact the markets and how to address them.

High price/earnings just keep on going



One example of a current market anomaly is continued elevated price/earnings (P/E) ratios. P/E stocks and low P/E stocks have not been acting as one would expect. We have been in an unusually prolonged high P/E environment. Typically, at some point, a correction would have “adjusted” P/E ratios back down closer to historical averages. This has not been the case, and the market P/E remains above average.

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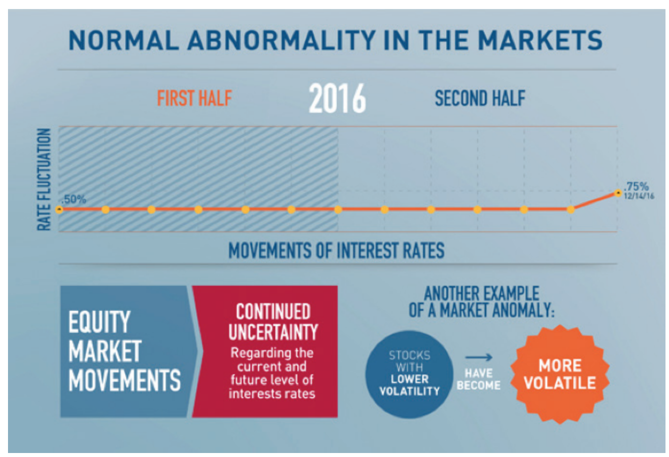
Value disappointed most of the year

Another example are low valuation stocks, which have not performed as expected for most of the year. Now that the Federal Reserve (Fed) raised the short-term interest rates another quarter of a percentage point on December 14, 2016, value stocks do seem to be resuming their “normal” behavior.



Taking a long-term approach

Our view is long-term, and we seek to maintain a consistent approach to investing that doesn’t react to the short-term impact of every market event. We caution investors against making investment decisions based only on surface information or one singular facet.

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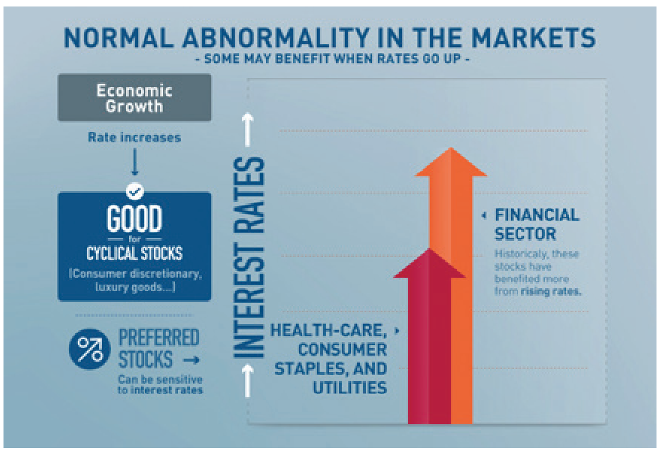
Taking a long-term approach (Cont.)

For the first time since December 2015, the Fed raised interest rates, as previously mentioned. This increase signaled that rates could continue to rise in 2017 more quickly than previously expected. The Fed's unanimous vote also signaled more confidence in an improved job market, continued wage and income growth, increased consumer spending, improved housing activity, and unemployment on a decline. Along with the interest rate increasing, we believe that bond yields will also increase. Investors should be especially wary of stocks that may be more interest rate sensitive.

Some sectors may benefit when rates go up



Historically one sector that typically benefits from rising rates is the financial sector. Sectors that tend to struggle from rising interest rates are healthcare, consumer staples and utility sectors. However, there are other factors that affect sector performance that must be considered. If economic growth is behind the rate increase, that can bode well for cyclical stocks, such as consumer discretionary, particularly luxury goods, which are highly dependent on where the economy is in the cycle. Preferred stocks, with characteristics of both bonds and stocks, have an income component that can also be sensitive to interest rates, which may be a drag on prices when rates are rising.

Continued volatility is likely in the near term

We believe that uncertainty regarding U.S. economic strength, global considerations and unanticipated events will likely result in continued market volatility over the near term. We follow a consistent and disciplined approach to investing, seeking diversified sources of return. In our opinion, investors are best served if they work with their advisor to focus on their long-term goals, with an asset allocation that is appropriate for the risk profile and return objectives of their unique circumstances.

READY TO HELP

At PNC, we combine a wider range of financial resources with a deeper understanding of your business to help you achieve your goals. To learn more about how we can bring ideas, insight and solutions to you, please contact your Relationship Manager.

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