Cooling his temper and headed for success?

– Michael Mack, Portfolio Manager

2016 has definitely been a year marked with uncertainty. Post-election, the uncertainty has now shifted from who will be president to what will President-elect Trump do. Using statements from his campaign and insights from market observers, we put together a summary of the main themes investors can likely expect and investment opportunities that may exist in the first year of a Presidential term. While these ideas may not come to fruition, it is what we believe could happen based on the information we've gathered.

Stronger economic growth

A recent poll from Gallup[1] shows that Americans have shifted to a more positive outlook on the economy since the election of Donald Trump. Many believe that his background in business will lead to a big focus on increasing economic growth. **Corporate tax reform**, **fiscal stimulus**, **infrastructure investment**, and **reduced regulation** have all been mentioned as ways to boost economic growth.

From the beginning of October leading up to the November 8th election, the S&P 500® was on a gradual downward trend. Since the election, markets have rebounded and then some.

S&P 500® (9/30/16 - 11/29/16)

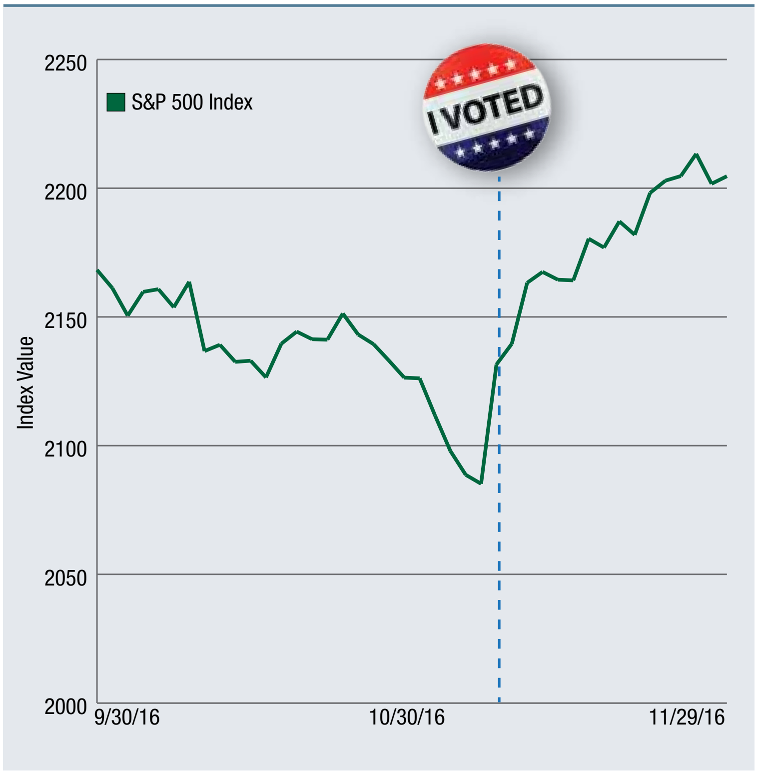


Chart Source: Bloomberg
PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS. You cannot invest in an index.

[1]http://www.gallup.com/poll/197474/economic-confidence-surges-election.aspx

Sectors to watch

Financials may benefit from stronger economic growth, higher interest rates, and a more favorable regulatory environment.

Healthcare: Less scrutiny toward drug prices and a plan to keep the requirements to cover patients with pre-existing conditions may benefit healthcare.

Technology: Potential corporation repatriation at special lower tax rates may benefit technology.

Real Estate, Materials, Industrials, and Energy may benefit from increased infrastructure spending, lower taxes, and a more favorable regulatory environment.

Sector Weightings	Pacer Trendpilot™ 750 ETF (Large-Cap)	Pacer Trendpilot™ 450 ETF (Mid-Cap)
Financials	15.29	22.13
Health Care	12.89	7.86
Info Tech.	20.02	15.19
Energy	7.32	5.98
Industrials	10.54	14.72
Materials	2.95	7.09
Real Estate	3.35	7.76

Weightings as of 11/30/16

Higher interest rates

The economy has been in a deflationary spiral since the financial crisis in 2008. Prices for goods and services were dragged down as the economy underwent a deleveraging cycle. In addition, cheap imports from China lowered demand of US and foreign made goods. Trump has been critical of what he calls "unfair trade policies" from China. Should he impose restrictions on trade with China, we could experience a pickup in reflation.

Increased volatility

The immediate aftermath of Trump's election victory saw a sharp selloff overnight in the futures markets. Investors feared a divided nation caused by increased polarization of America. Those fears were calmed with what many believe to be a conciliatory acceptance speech and shift from Trump the campaigner to Trump the president. Nevertheless, he faces many challenges including tightening monetary policy, weak economic growth, and a gridlocked Washington.

What this means for portfolios

Signs are emerging that cracks may be forming in the 30-year bull market in fixed income. Many believe a possible raise in interest rates looms in the near future and investors should re-evaluate how much fixed income exposure they have. Fixed income has traditionally served as a shock absorber for portfolios, but during the last 30 years it has also served as a major source of capital appreciation. While its traditional use will remain, its potential for serving as a source of capital appreciation in the future is being questioned with the prospect of higher interest rates.

Thanks to higher interest rates driving down the price, the Bloomberg Barclays US Aggregate Bond Index has declined 2.63% since the end of October. During the same time frame, the 10-year bond yield increased 53 basis points. Investors face increased risk investing in fixed income during rising interest rate environments.

A continued shift to equities

With higher interest rates and struggling fixed income portfolios, a shift from fixed income to equities may continue. Pairing this with the potential for stronger economic growth could make equities even more appealing. Historically, the first year of the presidential cycle is very attractive for the stock market. Over the previous 9 presidential elections, on average the large-cap market is up 13.39% in the first year of a president's time in office. Mid-cap performance is even better, with an average return of 17.14%.

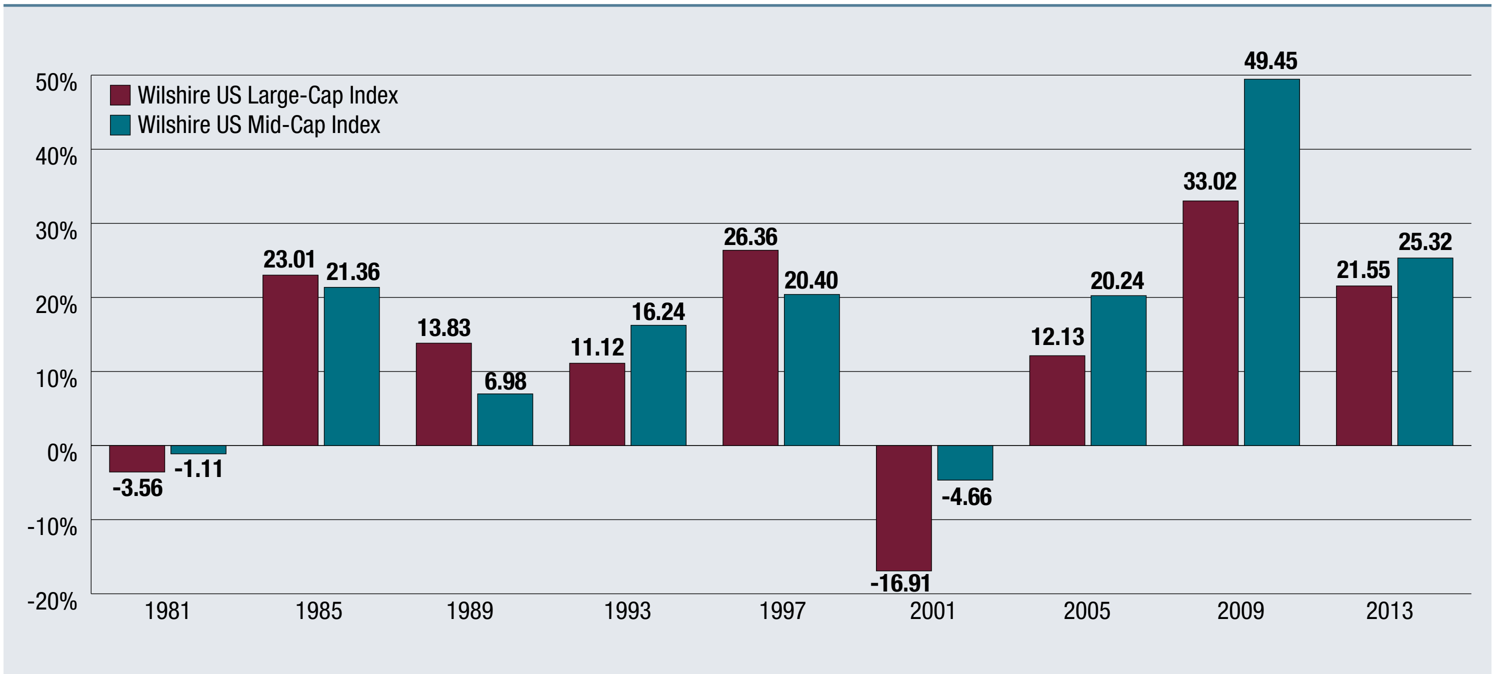
1-Year Return from Inaugural January

	Wilshire US Large-Cap	Wilshire US Mid-Cap
Average	13.39%	17.14%
Maximum	33.02%	49.45%
Minimum	-16.91%	-4.66%

Source: Wilshire
Every 4th year, January 31, 1981 - January 31, 2013

1-Year Return After a Presidential Election

1981 – 2013



Source: Wilshire **PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.** You cannot invest in an index.

While the consensus outlook is positive for stocks, investors should expect some bumps along the way. The economy and stock market still face numerous challenges:

- Tightening monetary policy may lead to a shortage of liquidity.
- A global debt overhang may cause continued deleveraging.
- Rising interest rates could slow the economy.

These issues could potentially derail the prospects for higher economic growth. Any signs of these factors slowing growth could cause a sharp pullback in equities. Therefore, investors should brace for volatility over the next year.

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The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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16 Industrial Boulevard ▪ Suite 201 ▪ Paoli, PA 19301 ▪ 877-337-0500 ▪ www.paceretfs.com