Seeking Alpha α

5 Graphs That Explain Financial Markets In 2016

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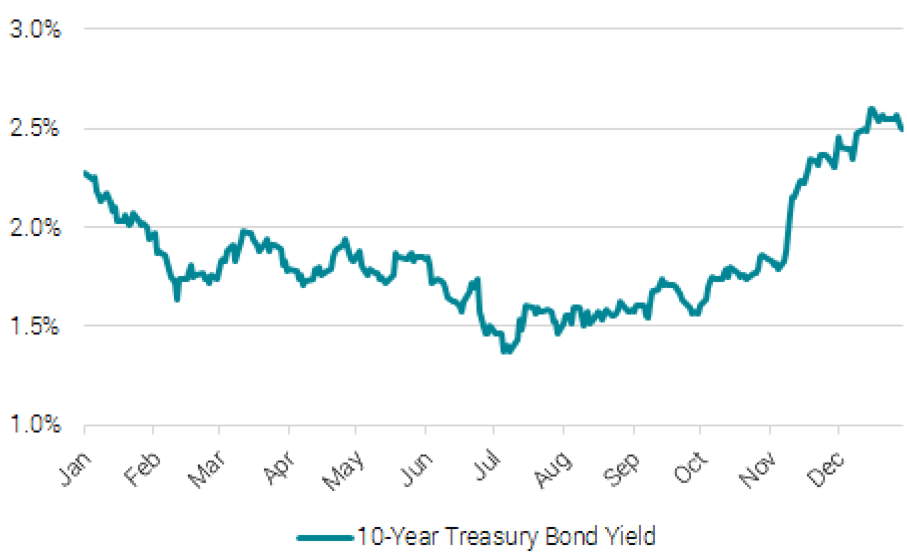
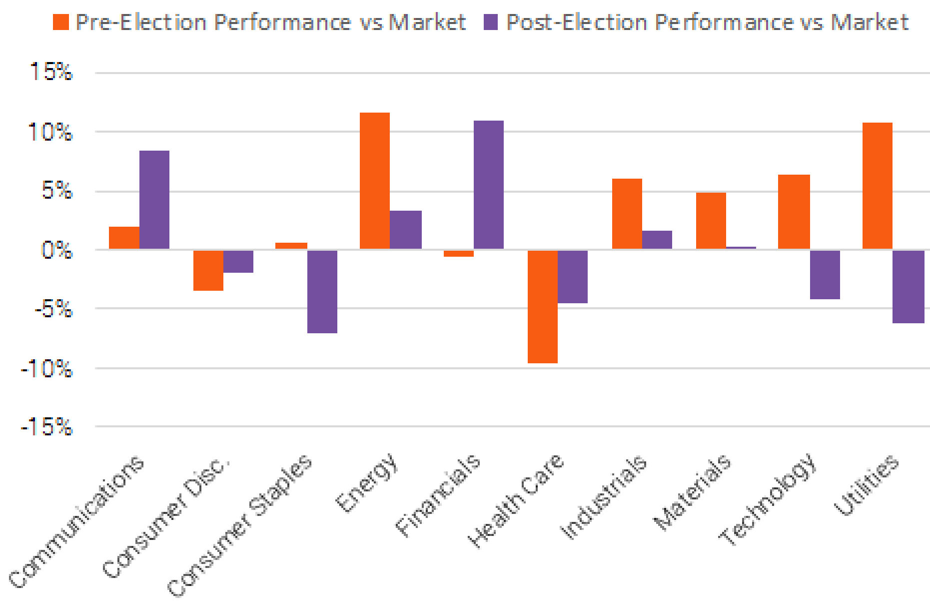
Financial markets in 2016 were characterized by dramatic reactions to political events, particularly Britain's vote in June to leave the European Union and the American election in November. Yet despite these shocks and a stock market swoon at the start of the year, 2016 ended up being a very good year for most investors. Those with higher allocations to riskier assets did especially well as high yield bonds, US stocks, emerging market stocks, and commodities all posted returns of more than 12%. Here are 5 graphs that explain the key movements in financial markets during the year:

1. Bond yields jumped following the American presidential election



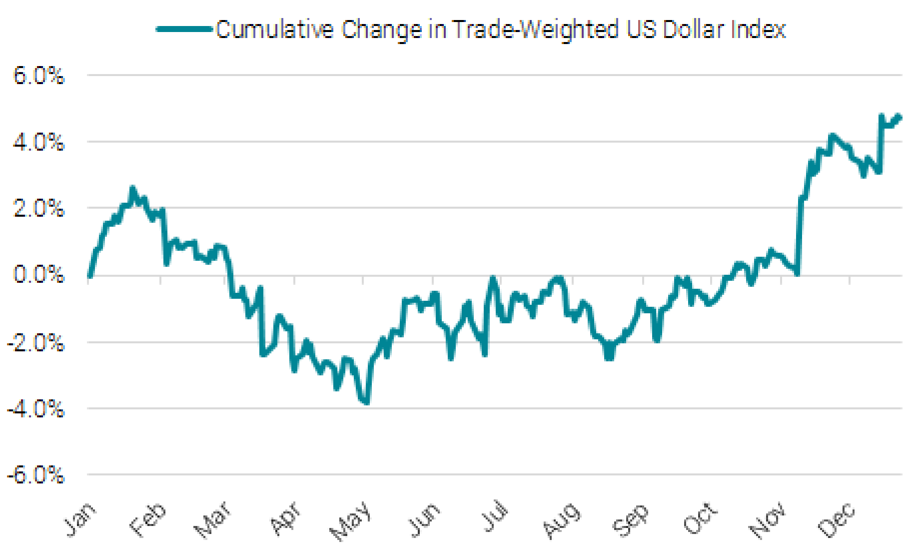
The yield on 10-year treasury bonds dipped below 1.5% in the middle of the year and was still below 2% until the American election, after which it jumped up to 2.5% by the end of the year. The higher bond yields were likely the result of investors anticipating that the incoming Trump administration will pursue policies that will result in some combination of faster economic growth, higher inflation, and larger budget deficits.

2. The election results had very different effects on different stock sectors



The election had very different effects on different sectors of the stock market. The financial sector, which had underperformed the broader stock market from the start of the year through November 8th, outperformed the overall market by 11% from November 9th through the end of the year. More "defensive" sectors such as consumer staples and utilities went from outperforming the overall market prior to the election to dramatically underperforming after the election.

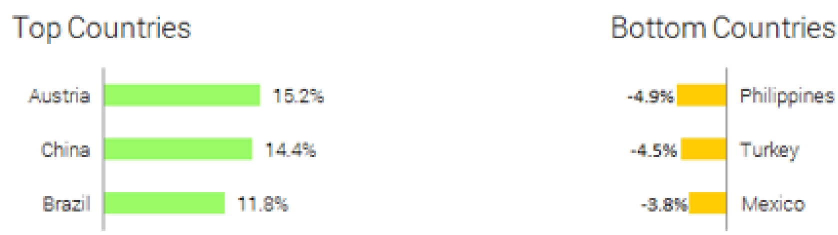
3. The US dollar continued to strengthen



Source: Federal Reserve Economic Data

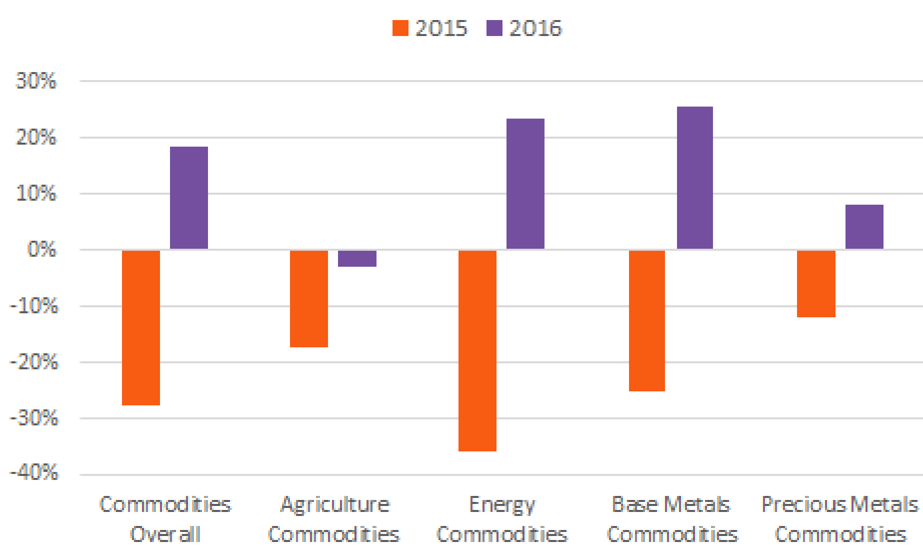
The US dollar continued its trend in recent years of increasing in value relative to other currencies. The dollar gained almost 5% against a trade-weighted index of foreign currencies, and essentially all of that gain occurred following the November election. The British pound was one of the major currencies that declined as it lost almost 10% of its value against the US dollar in the days following the June vote to leave the European Union.

4. Some of the worst-performing countries from recent years rebounded strongly



Some of the worst-performing stock markets from around the globe rebounded strongly in 2016. Brazil, which had the worst-performing stock market in 2015, went from worst to first with a gain of almost 65%. Peru and Russia, two other countries whose stock markets have struggled in recent years, also gained more than 50%.

5. Most commodities rose in value



Along with stock markets in commodity-producing countries such as Brazil, Peru, and Russia, commodities themselves rebounded strongly. After posting losses of more than 27% in 2015, commodities returned more than 18% in 2016. The turnaround was led by energy commodities, which went from a 36% decline in 2015 to a gain of more than 23% in 2016.