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April 2016

First Quarter 2016

It was a quick start to the year for financial markets, which at this point have gone full circle after an initial decline. Domestic markets ended the period even, but took a very wild ride to get there. International markets continued to lag their domestic counterparts, ending down 3% on the quarter. Given the turbulence in the domestic markets it appears the Federal Reserve may have backed off of their anticipated path of raising rates four times in FY2016. With this potential change in direction in mind, the broader fixed income markets were one of the better performing asset classes of the quarter, ending up 3%.

It's been a Wild Ride

The year started off with a slide as we quickly gave up the gains we recorded in the fourth quarter of 2015. Peak to trough during the quarter, the S&P 500 index declined around 10%, leading many market commentators to wonder if this was the start of something more. As we have noted in the past, this level of movement is not uncommon for the index and something that should come as no surprise for equity investors. The index completely recovered from this initial stumble, ending the period more or less even. So while we had a lot of movement during the period, not much progress was made in one direction or the other. At this point analysts are not predicting revenue or earnings growth for the S&P 500 until the back half of the year, leading us to believe that we could be in for a continued bumpy ride until we have fundamental revenue/earnings growth to propel further share price appreciation. According to Factset, the S&P 500 index's forward P/E ratio (a commonly used ratio to determine if stocks are considered "cheap" or "expensive") is currently 16.4, above both the 5- and 10-year averages. We feel this inflation of the current multiple reflects the expectation for a reigniting of earnings growth in the second half of the year and is not an indication that equities are overvalued. Strong employment numbers, above historical average consumer confidence and a robust housing market are some of the many indicators leading us to our optimistic viewpoint on domestic stocks.

International markets during the quarter continued to lag their domestic counterparts. At this point, it feels as if the market is trying to decide if the US economy is strong enough to push the global economy forward or if issues in China and other parts of the world are going to drag the broader domestic indexes down. Currently, the forward price-to-earnings ratio of the MSCI EAFE index is close to its average since 2000, at 14.5x. China's transition from a manufacturing-based economy to one that is more consumption driven continues to be heavily scrutinized, but is a transition that was not unexpected in our opinion. Given the easy monetary policies currently employed by central bankers around the globe and an earnings multiple that is in line with its historical average, we remain confident in international investments' place in a long term diversified portfolio.

At the end of 2015, it appeared that we would see four rate hikes in 2016; however, during the first quarter of the year interest rates remained steady. At this juncture, despite the Federal Reserve noting expanding economic activity and a strengthening job market, it looks as if rates may be increased only twice. "Global economic and financial developments" were cited as some of the culprits for the slower than originally forecasted increase in interest rates. The broader fixed income markets, measured by the Barclays US Aggregate index, increased 3% in the period, in light of the change in tune from the Federal Reserve.

As we noted in our last market update, we expected 2016 to be a bumpy yet positive year and while we are still a ways from the finish line, the year has handily met our expectations. At this point we would expect more of the same as we begin to work through the first two quarters' earnings seasons. For investors with diversified portfolios and invested in multiple asset classes, we would recommend looking for rebalancing opportunities especially in taxable accounts that bring long-term allocations in line with goals, risk tolerances and time horizons.

We stand ready to assist you and answer any questions regarding this newsletter or anything else that may come up. If any changes to your situation have occurred, please contact us at your convenience.

Indices:	Closing Price: 12/31/2015	Closing Price: 3/31/2016	CY2015 % Return	Q1'16 % Return
S&P 500 TR USD	2,043.94	2,059.74	1.38%	1.35%
MSCI EAFE NR USD	1,716	1,660.68	-3.30%	-3.01%
Barclays US Aggregate Bond TR	1,925.40	1,983.77	0.55%	3.03%

Written by Finity Group

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