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Dear Valued Investor:

We are now halfway through a jam-packed June, which has seen key macro and geopolitical events—rather than news on corporate earnings—drive financial markets and investor sentiment. In early June, the European Central Bank (ECB) began its long-awaited corporate bond buying program, aimed at unfreezing the still frozen European banking system. In addition, OPEC (the Organization of Petroleum Exporting Countries) made no change to its production quotas, as oil prices hovered near $50—almost double the price of early 2016.

The May jobs report (released on June 3) in the U.S. was a big disappointment, as job growth languished. That report proved to be a key pivot point for market sentiment regarding the path of interest rates ahead of the Federal Reserve's (Fed) June 15–16 policy meeting. At that meeting, the Fed struck a dovish tone on rates; however, the statement reiterated that it expects to enact two more rate hikes in 2016 if the labor market, economy, and inflation track to its modest forecasts.

In recent weeks, it's become clear that real economic growth (as measured by gross domestic product [GDP]) in the U.S. for the second quarter of 2016 is tracking to 3–3.5%. This potential uptick in growth follows yet another weak start to the year for GDP, with first quarter growth coming in at just 0.8%. Combined, this would result in the first half of 2016 showing growth close to 2.0%, just barely enough to take up slack in the economy and labor market, and nudge wages and inflation higher.

Corporate earnings news—typically the key driver of equity prices over the long run—has been scarce in recent weeks as the corporate earnings reports for the first quarter of 2016 wrapped up in mid-May, and second quarter results won't start releasing until mid-July. Until then, macro issues like the "Brexit" vote (the possibility of the United Kingdom voting to leave the European Union), central bank policies, crashing European banks, a surging Japanese yen (which is historically a risk-off signal), geopolitics, and yes, even the 2016 presidential race are likely to dominate the headlines. In the past few days, concern has mounted about the possibility of the Brexit vote (on June 23, 2016) resulting in a "leave," and the impacts that may have on financial markets. The 2016 presidential primary season has also been winding down, allowing markets to focus on the two presumptive nominees, Donald Trump and Hillary Clinton.

Financial markets have generally held up well against this backdrop, as the S&P 500 remains just 3% below its all-time high hit just over a year ago. Investor sentiment continues to be rather dour, which could be a positive sign from a contrarian point of view. In fact, the number of bears in the American Association of Individual Investors (AAII) sentiment poll came in at 38% this week, the most since the mid-February lows, despite the potential for improved economic and earnings news over the second half of the year.

Looking ahead, the first few weeks of July bring another key set of economic data in the U.S., including reports on manufacturing, vehicle sales, and the labor market, in the form of the June Employment Situation report on July 8. Then the following week, corporations will begin to report their earnings results for the second quarter of 2016, against a much more favorable backdrop than in the first quarter, with oil prices higher, manufacturing stabilizing, and the headwind of the strong U.S. dollar evolving into a modest tailwind for overseas sales, earnings, and commodity prices.

A busy summer full of political headlines and central bank speculation continues, as we also keep watch on the trajectory of U.S. economic growth, and how all of this affects the financial markets. At this stage of the economic cycle, we may see continued volatility for stocks, even if the general direction is higher. Looking for potential opportunities to buy on a dip and maintaining a long-term focus remain key during times like this.

As always, if you have questions, I encourage you to contact me.

Sincerely,

Michael W. Jowdy, CFP®