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Market Update

February 2016 Review

"The Long Haul Back From January"

February continued January's trend of producing unattractive investment returns and mixed economic news around the world. China, oil, and the consumer remain atop global headlines. Investors are also keenly watching economic releases in order to sniff out any possibility of a recession. Overall, February produced better economic and investment results than January and most experts find little possibility of a recession in the near future.

Turmoil in the Chinese stock market made China a primary focus again this month. On February 26th, the Shanghai Composite Index had another day where it experienced a drop of more than 6%. From there, it continued lower and ended the month with a year to date loss of over 24%. In addition to China, commodity values across the board remain low, which has led the economies of commodity exporters like Russia and Brazil to falter. Oil remains the most watched and arguably most important commodity for global trade. Oil prices ended the month about where they started, despite a sharp dip in the middle of the month. Oil companies have obviously been negatively affected by these low oil prices. For example, Halliburton, a Houston based oilfield giant, announced on February 25th that they are cutting 5,000 more jobs in the coming month, equaling about 8% of its total workforce. In addition, companies that are affiliated with oil companies are also struggling. For example, banks that have lent heavily to oil companies are also exposed to the default risk of not getting paid back. Not all has been bad in the world, however, as many domestic economic releases have been positive and global concerns are being discussed and addressed by international bodies such as the G20 (The Group of Twenty).

Domestic economic signals released this month were largely positive, but had some mixed messages. To start, 4th quarter 2015 GDP was revised upward on its second revision to 1.0%. This is 0.3% higher than the initial estimate, however this increase is likely deceiving. The increase centered on inventory growth, and since demand slowed in the 1st quarter of 2016, the growing inventories are likely unwanted stockpiles that are not selling very well. Income and spending at the consumer level were both up in their latest reports for the third time in four months, and at higher than expected levels. Increases in consumer spending did not come from savings either, as the savings rate remained the same. Inflation has been slightly higher than expected, however it remains at a healthy level. In addition, consumer sentiment is stable and initial jobless claims are at historically low levels. Domestic indices were mixed for the month. The Dow Jones Industrial Average (DJIA) gained 0.8% while the S&P 500 Index was down 0.1%. The NASDAQ posted the largest negative returns domestically, just as it did in January, at -1.2%. There was not much clarity this month regarding whether market capitalization or value/growth biases had an impact on investment returns, however like January, lower volatility investments outperformed higher volatility investments across most asset classes.

	February 2016	YTD
DJIA	0.75%	-4.68%
S&P 500	-0.13%	-5.09%
NASDAQ	-1.21%	-8.98%
MSCI EAFE	-1.83%	-8.93%
MSCI Emerging Markets	-0.16%	-6.64%
Barclays Aggregate	0.71%	2.10%
Barclays Corp High Yield	0.57%	-1.04%
	2/29/2016	1/31/2016
US 10-Year Treasury Yield	1.74%	1.94%

On February 27th, Zhou Xiaochuan, the governor of China's central bank, held a news conference about China's economic status. News conferences are rare for Chinese economic officials, but he spoke to acknowledge the global concerns regarding Chinese corporate and government debt and helped to convince markets that China is "uniquely equipped" to handle such a situation. All in all, it appears as though the conference helped to quell some immediate fears and the markets gained as a result. In other news, falling energy prices have reduced inflation to zero in Germany. This adds pressure on the ECB (European Central Bank) to stimulate more in order to avoid a possible deflationary scenario within the eurozone, and is far from the ECB's ideal inflation target of 2%. When looking at the international indexes for the month, emerging markets were down 0.2% as represented by the MSCI Emerging Markets Index. The developed world suffered bigger losses as indicated by the MSCI EAFE Index, which was down 1.8% during February.

Fixed income generated positive returns as the Barclays Aggregate Index gained 0.7% and the Barclays Corp High Yield Index was up 0.6%. The yield on the 10-Year Treasury note fell from 1.94% to 1.74% last month, reflecting low confidence in the markets and higher demand for safe investments given the elevated volatility.

On the last Saturday in February, finance ministers from 20 of the world's largest economies completed their G20 meeting and exited with the following consensus view: The markets are overreacting to world events. Radical changes in course or policy are not necessary. A general endorsement was made to continue combining the economic levers of monetary policy, government spending and structural change, where needed, to aid in global economic growth. The ministers tried to relay the fact that there is considerable strength in the current global economy and that "the magnitude of the recent market volatility has not reflected the underlying fundamentals of the global economy", as stated by Chinese Finance Minister Lou Jiwei. A new set of agreements was established at the meeting that will bind all participants to enhanced transparency when deciding whether to implement economic levers like currency policies and interest rate changes. In the end, there seems to be agreement amongst world leaders and investment firms that although volatility exists in the markets and although there are causes for concern throughout the world, there are enough positives to counteract the negatives, at least for now.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

G20: The Group of Twenty is an international forum that consists of the governments of 20 major economies.
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