Market Update

March 2016 Review

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"March Rescues The First Quarter "

Markets ended the first quarter on a positive note, erasing all losses that we experienced at the beginning of the year. The Fed's decision to keep rates unchanged and improved economic data pushed the major indices significantly higher, putting them in positive territory year to date. The major themes that drove volatility in the first few months of the year have subsided and the recession scares are now not as palpable.

Markets experienced a severe correction in the first few weeks of 2016, sending investors into panic. This was partly due to the first rate hike by the Federal Reserve in almost a decade. Although this action was anticipated, it magnified investors' concerns about existing imbalances in the global economy and financial markets, including the strengthening of the U.S. dollar. It also magnified concerns about the impact of lower oil prices on energy companies and a slowdown in the Chinese economy. These fears pushed equity markets substantially lower through mid-February, but since then, markets have recouped those losses. The increased volatility in the first few weeks of the year caused many Fed members to worry about raising rates, which is why they decided against implementing a rate increase in March. This action, coupled with an improved macroeconomic landscape, led to the market rally in March that brought year to date returns back to positive levels. The Dow Jones Industrial Average (DJIA) gained a robust 7.2%. The S&P 500 Index posted a large gain of 6.8%, bringing its year to date results to 1.4%. The NASDAQ was also up 6.8%, but still remains negative at -2.8% year to date.

One of the most closely watched economic indicators that helped drive more confidence in the markets was the March employment situation. Nonfarm payrolls grew 215,000 last month, which was stronger than expected. Labor force participation increased to 63%, which is the highest level in two years, and wage growth increased. The housing market also continued to show signs of strength. Although the final reading of fourth quarter GDP growth was revised down, it still came in at a positive 2.2% rate which is slightly higher than the average 2.1% we have seen throughout this expansion. But perhaps the biggest contributor to the market rally we experienced in March was the Federal Reserve's decision to keep rates unchanged. This decision, however, may have negative implications in the future. One of the Fed targets, core CPI, rose to 2.3% YOY (year over year) in March which is the highest reading we have seen since 2008. Although it is good to see inflation go up a little bit, one of the Fed's stated goals was to start implementing tighter monetary policy once inflation reached the 2% target and we are now well past that target. So although the Fed's decision to keep rates low in March eased some of the global concerns, they may have done so at the cost of higher inflation later in the future and possibly the need for more aggressive rate hikes over the next few years.

	March 2016	YTD
DJIA	7.22%	2.20%
S&P 500	6.78%	1.35%
NASDAQ	6.84%	-2.75%
MSCI EAFE	6.51%	-3.01%
MSCI Emerging Markets	13.23%	5.71%
Barclays Aggregate	0.92%	3.03%
Barclays Corp High Yield	4.44%	3.35%
	3/31/2016	2/29/2016
US 10-Year Treasury Yield	1.78%	1.74%

Another reason why the Federal Reserve might have avoided further tightening is because the rest of the world has been moving in the opposite direction: monetary easing. Back in December, the European Central Bank lowered interest rates to -0.3% and the President of the ECB, Mario Draghi announced on March 10th that rates would be lowered again to -0.4%. Japan is another country that is also pursuing negative interest rates. This type of policy has been concerning for global investors. Not only does it increase uncertainty because no one knows the impact that it will have on other countries, but it is also assumed that only an unattractive economic situation would require these types of unprecedented measures. Despite concerns regarding negative rate policy, economic growth rates in the euro zone have improved due to these measures. The euro zone posted a GDP growth rate of 0.3% in the fourth quarter of 2015. Overall, developed markets as represented by the MSCI EAFE gained 6.5% in March but still posted a negative first quarter return of -3.0%.

Another consistent theme throughout the quarter has been the Chinese economy. After a number of policy mistakes that were made at the end of 2015 and beginning of 2016, Chinese authorities are finally beginning to act more rationally, sending positive signals into the markets. The Chinese government has made an effort to make monetary policy more flexible this year in order to meet economic growth rate goals. Emerging Markets in general surged in March as the MSCI EM Index was posted a double digit gain of 13.2%, pushing the year to date number to 5.7%. Fixed income markets were also positive in March as the Barclays Aggregate Index gained 0.9% and the Barclays Corp High Yield Index was up 4.4%.

The first quarter of 2016 has taken investors on a wild ride with equity returns swinging from correction territory to a market rally. Market segments that performed really poorly at the beginning of the year have come back strongly at the end of the quarter. These types of market movements should serve as a reminder for investors to keep well diversified portfolios and to stay the course over the long term. Federal Reserve action will likely remain at the forefront of investors' minds for the remainder of the year as their policy decisions have been key determinants of market returns. In addition, given that this is a Presidential election year, markets may continue to be volatile as we approach November.

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.

Core CPI: Consumer Price Index is a measure of inflation. It is calculated by looking at the price change of a predetermined basket of goods to measure any changes in the cost of living. Core CPI is the consumer price index (CPI) excluding energy and food prices. This is popular measure used by the Federal Reserve in making monetary policy decisions.