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Market Update

April 2016 Review

"Markets Stay Steady Despite Mixed Signals"

Equity, Fixed Income and International markets were mostly positive in April. This comes despite mixed economic data throughout the month, including the slowest quarterly U.S. GDP growth rate in two years. The Fed recognized these mixed signals with a decision not to move rates at the recent Federal Open Market Committee Meeting on April 27.

The Federal Open Market Committee met in April to assess and react to current global economic conditions. Policy makers made the decision to not raise rates any further at the current time, however left the possibility of a rate hike open for their next meeting in June. Although there was no rate change, weakness in the U.S. economy was downplayed and improvements in global financial markets were cited. Looking back at the beginning of the year, the general tone in the markets was more uncertain and the global situation was relayed as being more serious. The most recent announcement by the FOMC was more optimistic, making investors believe that the outlook for world markets is strong overall, unlike the previous meeting, where they mentioned global risks and the real possibility of disruptions in the markets. Domestic markets agreed and ended the month on a relatively positive note: the Dow Jones Industrial Average (DJIA) gained 0.6% and the S&P 500 Index posted a modest gain of 0.4%. They both ended the month with positive year-to-date numbers as well. The technology heavy NASDAQ composite was down 1.9% for the month and is negative for the year so far at -4.6%. Within domestic equity, smaller capitalization companies outperformed larger caps overall, and companies with a value bias outpaced their growth counterparts.

The Fed certainly downplayed weakness in the U.S. economy, however these weaknesses were real and palpable in April. The U.S. economy continues to grow at a slowing pace, as reported in the 0.5% annualized rate in the first quarter of the year. This is the slowest pace in two years and highlights weakness in both business and consumer spending over this period. Businesses in particular reduced spending at their greatest levels since the financial crisis. They are likely reducing spending as a response to lackluster global demand, however low oil prices and overseas investments to avoid U.S. taxes are without doubt part of the cause. The reduction in spending at the consumer level is interesting when analyzed: consumers have been cutting back on spending since last year despite the fact that wage growth has been noticeable and oil prices have been low. Consumer sentiment was relatively weak for the month as well, driven by job and income uncertainties, and is the lowest reading since September. Core inflation came in above expectations again and the new home sales figure this month was neither impressive nor troubling. Jobless claims continue their trend downward, showing that hiring is generally strong throughout the country. All in all, the economic releases follow the trend of previous months where there is a mix of good and bad news.

	April 2016	YTD
DJIA	0.62%	2.83%
S&P 500	0.39%	1.74%
NASDAQ	-1.94%	-4.63%
MSCI EAFE	2.90%	-0.20%
MSCI Emerging Markets	0.54%	6.29%
Barclays Aggregate	0.38%	3.43%
Barclays Corp High Yield	3.92%	7.40%
	4/30/2016	3/31/2016
US 10-Year Treasury Yield	1.83%	1.78%

The Chinese economy, always a focal point for world markets, had some mixed news in April after stabilizing somewhat at the end of the 1st quarter. On the one hand, China's official Manufacturing Purchasing Managers Index had its second consecutive month above a 50 percent reading, which indicates improving conditions. On the other hand, the Caixin Purchasing Managers Index, which tracks smaller factories, workshops and private industry, fell to a level below 50. This highlights the state of limbo that China's economy currently finds itself in and investors around the world are monitoring the situation closely.

Over in Europe, all eyes have been on the United Kingdom, as there have been serious considerations on whether or not they should depart from the European Union (this situation has been dubbed the "Brexit" for British exit). Top economists on both sides of the argument have been making news headlines with economic predictions of what would happen to United Kingdom if they did indeed leave the Union. All in all, a British exit would likely only have minor global repercussions but potentially significant domestic repercussions for the United Kingdom itself. The exact results of an exit are unknown, since this would be an unprecedented action. Overall in April, developed markets as represented by the MSCI EAFE gained 2.9% in April and remain flat for the year at -0.2%. Emerging Markets, as represented by the MSCI EM Index, were very strong last month, and although falling short of that mark, were still able to post a positive 0.5% in April. Fixed income markets continue their rally for the year as the Barclays Aggregate Index gained 0.4% and the Barclays Corp High Yield Index was up 3.9% in April.

With the exception of the initial plummeting of equity markets at the beginning of the year, the months following have been more or less in line with what many investment firms and economic pundits predicted: equity markets have been experiencing low to moderate growth, volatility remains elevated, energy and commodities have been strengthening and overall economic results have been mixed. As of the end of April, 62% of S&P 500 companies reported earnings. The results fall in line with the mixed results theme of the month: 74% of those companies that have reported results have reported earnings above their mean estimate, however despite this positive message, blended earnings have declined 7.6%. If this trend continues for the rest of the companies in the S&P 500 and the index does indeed finish Q1 reporting with an overall earnings decline, it will represent the first time since the 2008-2009 period that the S&P 500 has experienced four consecutive quarters of YoY earnings decline. Estimates dropped lower for the second quarter as well. All in all, April ends in the similar, delicate spot where it started the month.

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.