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Market Update

May 2016 Review

"Markets Continue Their Rollercoaster Ride"

Increased uncertainty about several economic and political themes created more volatility in the markets for the month of May. Domestic markets ended the month positive but fears about future Fed action, the upcoming elections and poor earnings growth caused ups and downs over the course of the month. Performance results were also mixed overseas due to investors' worries about Brexit and new fears about China.

Even though equity markets were unsettled in May, we didn't see a repeat of the January-February correction that was fueled by recession fears. After a few consecutive negative weeks, the last week of May finished strong, which was enough to bring domestic indices back to positive for the month. There were several positives during the month that supported the gains in the market, including a surge in new home sales, continued improvement in the labor markets and an increase in retail sales. Overall, the U.S. consumer remains in relatively good shape as suggested by the Consumer Confidence index, which rose to the highest level in May since the summer of last year. Additionally, first quarter GDP growth was not as slow as we had originally anticipated, as the latest revision came in at around 0.8%. One area of concern that led to stock market losses at the beginning of May was weak corporate earnings. Low energy prices and a strengthening of the U.S. dollar have both put a major drag on company earnings. However, the year-long earnings recession may be ending as oil prices rebounded towards $50 per barrel at the end of the month. Overall, domestic equity markets are up year to date. The S&P 500 posted a 1.8% increase in May and is up 3.6% year to date. The Dow Jones Industrial Average rose 0.5% during the month and has gained 3.3% since the start of 2016. The biggest monthly gain was posted by the NASDAQ at 3.6%, but the index still remains negative for the year to date timeframe at -1.2%.

Although domestic markets remain positive, several new risks have emerged. Depending on how these risks play out, it may either push the markets further down or to new highs going forward. The most impactful one is Fed policy. More recently the Fed has adopted a more hawkish tone, indicating a possible rate hike in June. As we have seen in recent months, any indication of a rate hike brings volatility. The presidential and congressional elections also raise a lot of doubt, especially when the candidates involved have drastic differences in how they would run the country. The outcomes of the upcoming election have policy implications for the markets to worry about. Another feared event is Great Britain exiting the Eurozone which would likely unsettle the Eurozone economy.

	May 2016	YTD
DJIA	0.49%	3.34%
S&P 500	1.80%	3.57%
NASDAQ	3.62%	-1.19%
MSCI EAFE	-0.91%	-1.10%
MSCI Emerging Markets	-3.73%	2.32%
Barclays Aggregate	0.03%	3.45%
Barclays Corp High Yield	0.62%	8.06%
	5/31/2016	4/29/2016
US 10-Year Treasury Yield	1.85%	1.83%

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The "Brexit" has been the main topic of discussion in recent weeks. The June 23rd referendum will determine if the U.K. stays or exits the European Union. The British discontent with the EU may lead to a vote to leave, which could have near-term implications and potentially pull the British economy into a recession. For the EU, the Brexit would likely translate into low equity returns and a generally weaker euro initially but the long term impact of this decision is difficult to predict at this time. Within emerging markets, there has been a lot of discussion around China in recent months. The general theme remains that a large portion of money has been borrowed to fund inefficient projects (excessive building and overcapacity in manufacturing) which could all lead to a financial recession. Fears about China and emerging markets in general are also amplified when taking into account the drag that a rate hike in the U.S. can put on these countries. Both developed markets and emerging markets were down in May. The MSCI EAFE Index was down -0.9% and the MSCI Emerging Markets Index lost -3.7% in May. However year to date results have diverged as the MSCI EAFE Index is down for the year while Emerging Markets are up 2.3%.

As oil prices have increased over the last month, US high yield, which has a heavy weighting to energy, has rallied along with it. The Barclays Corp High Yield is up 0.6% and has gained a healthy 8.0% since the start of the year. The Barclays Aggregate Index is also up 3.5% year to date but was flat for the month of May. The fixed income markets will likely be impacted by the Federal Reserve's decision in June. Although the Fed appears to be itching to raise rates, a number of events could prevent them from doing so. Brexit fears is one of them, and the recent employment report could also be enough to discourage them to take action. U.S. employers slowed their hiring to the lowest level in more than 5 years. Only 38,000 jobs were created during the month of May. Overall, there are a few different factors that will likely drive the direction of the markets in future months: China, the Federal Reserve, Oil Prices, Corporate Earnings, Politics and the Brexit. The global economy has proven to be resilient to several shocks so far this year but this could change depending on how the above stated future risks play out.

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.